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ABSTRACT

The Self-Employment Investment Demonstration (SEID) is a test, designed to run from 1988 to 1992, of the feasibility of operating a program to encourage self-employment among welfare recipients. Challenges facing SEID included selecting sites, developing curricula, recruiting clients, getting clients through business training, completing business plans, obtaining financing, starting the businesses, and operating the businesses. During 1988-1989, the program operated in seven sites across four states. Based on early implementation experiences, it appears that (1) SEID attracted an unusual group of welfare recipients with substantial education and long welfare dependence; (2) about 34 percent of the enrollees had been self-employed in the past; (3) recruitment of clients was not difficult, but the program operated on a very small scale, usually involving 1 to 7 percent of welfare recipients in a given area; (4) only four of the agencies achieved full implementation of the SEID program; and (5) getting clients to complete business plans proved difficult and resulted in fewer than 100 businesses being opened. Evaluation of the experience through the beginning years shows that all the programs fell far short of initial expectations for business openings. It was concluded that self-employment is an appropriate approach for only a few welfare recipients. However, because of the value of entrepreneurship in the United states culture, the program continues to have appeal. (The report includes 23 tables, 4 figures, and 18 references. Six appendixes provide an outline of Maryland's SEID program, a technical appendix, the number of participants in the program phases, characteristics of enrollees, a comparison of enrollees with welfare recipients in two other programs, and a sample business plan.) (KC)

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Implementation of the SEID Program

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August 1991

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SELF-EMPLOYMENT FOR WELFARE RECIPIENTS: IMPLEMENTATION OF THE SEID PROGRAM

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Manpower Demonstration
Research Corporation

August 1991

MDRC conducted this evaluation under a contract from the Corporation for Enterprise Development (CFED), organizer of the Self-Employment Investment Demonstration. CFED received funding for this study from the Ford Foundation, Iowa Department of Human Services, Maryland Department of Economic and Employment Development, Michigan Department of Social Services, Minnesota Department of Human Services, and Mississippi Department of Human Services.

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The Authors

PREFACE

Policymakers, program operators, and the poor themselves are currently grappling with the challenge of finding new routes out of poverty and welfare. One approach – which has recently attracted considerable attention – is encouraging low-income people to become self-employed. This alternative to traditional wage employment has special appeal in rural or economically depressed areas where the number of employers seeking new workers is limited. It also draws support from those seeking to enable women to take greater control of their lives and overcome the barriers to economic success posed by sex and race discrimination.

The Self-Employment Investment Demonstration (SEID), discussed in this report, is the first national test of the feasibility of operating programs designed to increase self-employment among very poor women (in this case, recipients of AFDC) through a combination of business skills training, counseling, and technical assistance. This undertaking was a daunting one, facing the usual challenges of successful self-employment (a substantial endeavor for even experienced businesspeople) plus the special problems arising from the limited work experience and financial and other resources of the program's intended participants.

The implementation of SEID proved difficult. The authors have sought to develop lessons about self-employment programs within the context of public assistance and more generally for programs serving economically disadvantaged people. Their findings show that a highly selective program offering intensive services can locate a small and special group of welfare recipients with entrepreneurial potential and assist them in opening their own businesses. However, despite the creative and energetic effort of the national sponsors of SEID and the local program operators, many serious obstacles to the large-scale operation of self-employment programs for welfare recipients remain.

Judith M. Gueron
President

EXECUTIVE SUMMARY

The Self-Employment Investment Demonstration (SEID) is a test of the feasibility of operating a program to encourage self-employment among recipients of Aid to Families with Dependent Children (AFDC), the nation's major federally funded cash welfare program, which primarily supports mothers and their children. SEID grew out of program experience in several countries and reflected international interest in self-employment as a possible route out of welfare dependence and poverty. It also coincided with a growing movement among women's groups to develop new ways to combat gender discrimination in employment and to empower low-income women to assume more responsibility and control over their lives. Most employment programs serving low-income people seek to place them in jobs in existing businesses. But when jobs are difficult to find, or employers resist hiring welfare recipients, or wages are very low, this traditional approach has obvious limitations.

Administrators and policymakers involved in economic development and employment programs for welfare recipients have expressed a growing interest in fostering entrepreneurship among low-income people as a way of increasing their employment opportunities. Programs with these aims have been rarities in the past, but there are now more than 100 programs operating in the United States that provide training and assistance to low-income people in order to help them start their own small businesses. The SEID program model attempts to stimulate self-employment through a combination of training in business and personal skills, assistance in securing start-up financing, and waivers of the usual public assistance rules that hamper efforts by welfare recipients to be self-employed.

The demonstration, scheduled to run from 1988 to 1992, was initiated by the Corporation for Enterprise Development (CFED), a national organization that develops programs to increase employment opportunities for low-income people through economic development and job creation. CFED collaborated with the Women's Economic Development Corporation (WEDCO), the foremost practitioner in the field of entrepreneurial development for low- and moderate-income women, to develop a suggested model of services for the national SEID demonstration. During the period covered by this report, four states – Iowa, Michigan, Minnesota, and Mississippi – participated in the demonstration. A fifth state – Maryland – began serving SEID participants in October 1990. CFED contracted with the Manpower Demonstration Research Corporation

(MDRC) to conduct an independent evaluation of program implementation. The Ford Foundation provided support for the evaluation.

I. The Challenge of SEID

SEID was a new and demanding venture because of the very limited resources and business experience of welfare recipients and the lack of self-employment expertise in the state welfare agencies that were to initiate the local programs. Key operational challenges were:

- **Selecting sites.** States had to find local program operators who combined knowledge about training for self-employment with an understanding of welfare's requirements and recipients' needs.

- **Developing curricula.** The SEID model calls for welfare recipients to receive instruction in small business management, including market research, pricing of goods, financial record-keeping, and marketing. Service providers had to create new teaching materials or adapt existing courses and materials to give business and personal training to a new audience, welfare recipients.

- **Recruiting clients.** There were no explicit recruitment targets for the demonstration sites. However, program operators needed to maximize recruitment because not all applicants were expected to make it through the initial screening/self-selection process and continue on to master the variety of skills needed to successfully launch a business. Producing the maximum number of business start-ups was a key objective of program organizers and sponsors.

- **Getting clients through business training.** Programs could not succeed if clients did not complete business training. Coursework had to be interesting and accessible, clients' needs for support services (such as assistance with child care and transportation) had to be met, and staff often had to find ways to strengthen the self-confidence and motivation of clients.

- **Getting business plans completed.** The SEID model requires clients to be able to apply the general principles learned in business training to their own business idea. Further, clients must lay out a strategy for developing their business to the point where the income it generates allows them to leave welfare. The resulting business plan is then used in obtaining financing for the start-up.

- **Obtaining the needed financing.** Programs needed to help clients access sources of capital and use the proceeds responsibly. Financing could be handled either through special agreements with commercial banks or by the creation of special funds from public or corporate foundation sources.

- **Business start-ups.** At the outset of the demonstration, there were no direct precedents for SEID on which to base projections regarding the number of new businesses the program should produce. However, the federal Office of Family Assistance (OFA) and the states agreed on business start-up goals based on the number of AFDC case closures and subsequent welfare savings needed to balance out the cost of the program to the federal government. (These goals were set as a condition for granting waivers of standard welfare regulations; maintenance of federal revenue neutrality is generally a requirement for demonstrations requiring AFDC waivers.) Business opening goals for each state ranged from 100 to 202 over three or four years (depending upon the state).

- **Operating businesses under special waivers of selected public assistance rules.** Most new businesses do not provide their operators with much personal income during the initial start-up phase. Mainstream entrepreneurs typically overcome this barrier by using personal savings to cover living expenses during the start-up period and buying assets on credit. This enables them to reinvest most of the sales revenues in the business. AFDC recipients cannot follow these practices under the usual welfare regulations. Most or all of the business revenue, assets, and loans are treated as personal income under standard AFDC grant calculation and eligibility rules. These amounts are deducted from the client's grant or – in extreme cases – render the client entirely ineligible for welfare. This leaves the AFDC recipient without start-up capital or the money to support herself during the initial months of business operations. Under SEID, the federal government agreed to special AFDC rules for handling business income and assets, and the states and counties had to apply these rules correctly when calculating clients' AFDC eligibility and grant amount.

This evaluation of SEID's implementation examines whether and how states and local program operators were able to overcome these challenges. Although this report focuses on the early implementation of the program, it highlights issues that are likely to persist in this type of endeavor. Both experienced organizations such as WEDCO and those new to self-employment services encountered many of the same kinds of difficulties, suggesting that they are not just start-up problems.

It should be noted that this study examines only certain facets of program implementation, such as the potential scale of the program, the types of services and administrative arrangements utilized in the sites, the characteristics of program participants, and participants' progress through the program phases. A number of other important implementation issues remain to be addressed through further research proposed for this demonstration. These include the viability of SEID businesses, the number and stability of jobs created by SEID businesses, strategies by which successful business operators were able to overcome barriers to self-employment, and the effect

of participation in SEID and operation of a business on participants' lives and families. The evaluation was not designed to address the extent to which the self-employment services offered under the demonstration led to reduced reliance on public assistance by participants or raised their income.

II. An Overview of the Demonstration

During the period covered by this report,[1] the program operated in seven sites across four states, as listed below. (The start date refers to when the program began orientation sessions for potential enrollees.) The program operators ran the gamut from WEDCO, an agency experienced in providing entrepreneurial training to low-income women (including some welfare recipients), to the Institute for Social and Economic Development (ISED), a recently founded organization that undertook SEID as its first contract.

State	Site	Community Character	Program Operator	Start Date
Iowa	Waterloo	Urban and rural	Institute for Social and Economic Development (ISED)	March 1988
	Cedar Rapids	Urban and rural	ISED	July 1988
Minnesota	Minneapolis-St. Paul	Urban and suburban	Women's Economic Development Corporation (WEDCO)	February 1988
	Brainerd	Rural	Mid-Minnesota Business Concepts	February 1988
Mississippi	Meridian	Rural	Meridian Community College	September 1988
	Canton	Rural	Friends of Children of Mississippi, Inc.	September 1988
Michigan	Detroit	Urban	Highland Park Community College	December 1988

[1]This report is based upon information on program development and operations, client recruitment, and enrollee characteristics from February 1988 through April 1990. Analysis of client progress through successive program phases and business start-ups focuses on the period through September 1989, although information on business openings is updated through April 1990, confirming the continuation of business start-up rates calculated on the basis of the more complete data.

CFED proposed the basic program model to be used in the demonstration (see Figure 1). While all sites adopted this approach, details were altered to fit local circumstances. The SEID model may be summarized as follows:

- **Recruitment/orientation.** SEID originally envisioned a broad recruitment effort to bring clients into individual or group orientations, in which state and local staff would provide information about the program and the demands and rewards of self-employment.

- **Personal development workshops.** In these sessions, welfare recipients participate in activities designed to improve their self-esteem, their capacity to communicate and act like business owners, and their ability to assess their own strengths and weaknesses. They also work with staff to make an initial evaluation of the feasibility of their idea for a business. During the period of program implementation, this phase lasted from 2 to 12 sessions in the sites.

- **Selection of people for the program.** In one-on-one interviews, welfare recipients and program staff discuss the proposed business idea and the client's capacity to realize it. After the interview, it is determined whether the client should enroll in the full sequence of training and other activities. Sites varied in the extent to which they actively screened applicants or relied on self-selection into and out of the program.

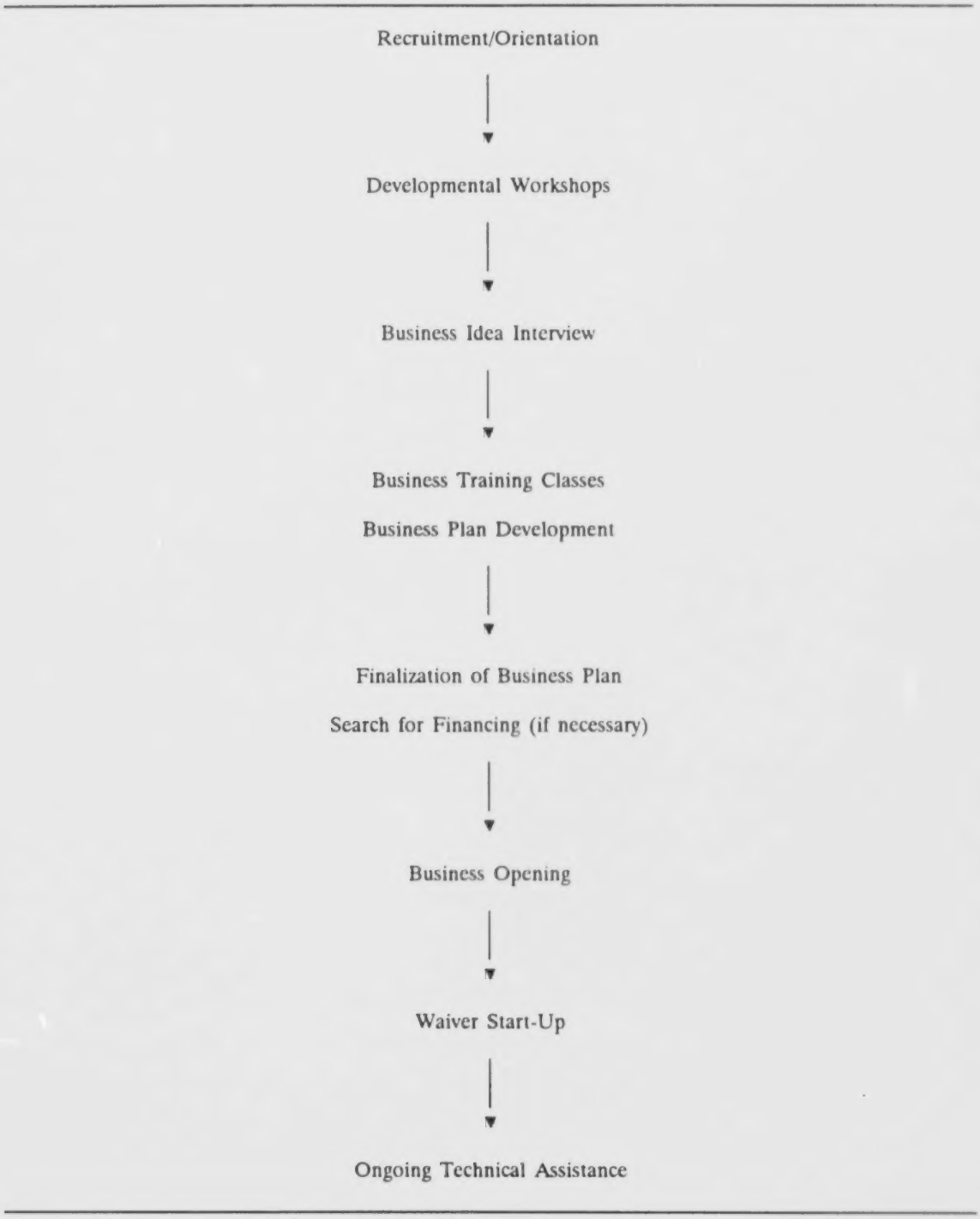
- **Group business training.** Enrollees participate in classes covering such subjects as finance, marketing, and bookkeeping. They learn general business skills and begin to apply them to their own business idea. The number of training sessions offered varied from 5 to 23 among the sites, reflecting their different perspectives on the needs of clients and the usefulness of group (as opposed to individual) sessions.

- **Individualized technical assistance and completion of the business plan and loan applications.** During and after completion of group training, clients work with staff individually to complete their business plan and loan applications. Completion of a business plan proved to be the most difficult phase of the program for clients to finish.

- **Opening of the business under waivers of normal AFDC rules.** For 12 months of business operations, the client is protected by waivers of regular AFDC rules. Within limits, these enable her to take out business loans, reinvest profits in the business, and accumulate capital and equipment without their affecting her welfare eligibility or grant level. After this period, clients were expected to leave welfare and support themselves with business profits, operate their business under standard welfare regulations, or close their business and try another option for employment.

FIGURE 1

BASIC SEID PROGRAM MODEL



Because the waivers were initially expected to play such a central part in SEID, it is important to describe them briefly and highlight how they influenced the operation of local programs. AFDC provides cash assistance to families who fall within specified demographic categories (mostly single-parent families in which there is a child under 18 years of age) and have income and assets below prescribed ceilings. The amount of assistance is adjusted downward as the income of a recipient rises. Although the states set the income ceiling for eligibility and determine the amount of assistance to be provided, the federal government specifies and defines the types of income and assets that must be counted in determining eligibility and calculating the monthly grant. For the self-employed, the central issue pertaining to eligibility and grant calculation is whether the assets and income from the business are automatically counted as personal resources, thereby reducing or eliminating the AFDC grant. The special SEID waivers, described in detail in the body of this report, were designed to allow the self-employed to accumulate business assets, take out loans, and reinvest business profits without reduction of their AFDC grants or loss of welfare eligibility.

III. Key Findings

Following are key findings based on early implementation experiences:

- **SEID attracted a group of welfare recipients who were unusual in that they combined fairly lengthy welfare receipt with substantial educational attainment and employment histories.**

Depending on the site, 44 percent to 74 percent of SEID enrollees had been receiving welfare continuously for more than two years. This suggests a fairly disadvantaged group. However, the enrollees also brought particular strengths to the program: They tended to have higher levels of education (more than 88 percent had a high school diploma or General Educational Development [GED] certificate), more work experience (more than 83 percent had worked full-time), and more job training than did the typical welfare recipient in the areas served by SEID programs.

The combination of fairly long welfare receipt and relatively high levels of education and employment experience is consistent with the fact that most SEID clients were over age 30 – older than the typical welfare recipient – and therefore had a longer period of time in which to work, go to school, and receive welfare.

In other respects, SEID enrollees were more typical of the welfare caseload of their local areas. Most SEID enrollees were female, owing in some degree to federal restrictions on participation by members of the AFDC-Unemployed Parent (AFDC-U) program, which serves almost all male AFDC recipients. Minorities were enrolled in SEID in numbers that equaled or slightly exceeded their representation in the local welfare caseload.

- **About 34 percent of SEID enrollees reported that they had been self-employed either in the past or at the time they applied for the program.**

The fact that over a third of the enrollees reported self-employment experience indicates that an important function of SEID may be to help business operators make marginal enterprises more profitable, resuscitate failed businesses, or "legitimize" businesses that may have been previously underground.

- **Recruitment and enrollment of clients were not a major problem in most sites, but the programs operated on a very small scale.**

As expected, SEID recruited a small proportion of the eligible AFDC caseload in its local areas. A total of 1,082 interested AFDC recipients attended program orientation meetings as of April 30, 1990. This means that 1 percent or less of the caseload attended a SEID orientation meeting in urban locales and 6 to 7 percent of the caseload attended an orientation in rural areas, with the absolute numbers in the rural areas being very small. Even by the standards of a highly selective, voluntary employment program for welfare recipients, this level of recruitment is quite small-scale.[2]

Fewer than half of the recipients who attended orientation (490 people) made it through the program screening/self-selection process and enrolled in SEID business training and technical assistance services by April 30, 1990. Enrollment ranged from 7 welfare recipients in the Meridian site (which suffered operational problems that led to a severe recruitment

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[2]To provide some comparative perspective on the scale at which SEID operates, we can compare SEID to other voluntary, selective employment programs targeting welfare recipients that were viewed by their state administrators as small-scale interventions. For example, Maine and New Jersey both operated programs in which AFDC grants were diverted to employers to pay the salaries of AFDC recipients (a funding mechanism known as grant diversion). MDRC found that the proportion of the local welfare caseload that attended initial interviews for the Maine grant diversion program over a 15-month period was more than three times the proportion of the local AFDC caseload that attended a SEID orientation over a 25-month period. The proportion that attended an initial interview for the New Jersey grant diversion program over 20 months was more than double the proportion of the local welfare caseload that attended a SEID orientation.

shortfall) to 116 in the WEDCO site. Most SEID program operators reported that the number of clients the local programs were able to recruit, while small, represented the maximum number the program operators could adequately serve at their current staffing levels. Program operators saw no evidence that the pool of potential SEID enrollees was diminishing.

- **Full implementation of SEID was achieved by four of the six participating agencies. These were organizations that made SEID the heart of their agency mission and exhibited a strong commitment and a flexible approach to the program.**

SEID proved to be a demanding program to implement, requiring program operators to deliver very individualized and complex services to welfare recipients while interacting with the welfare system. In addition, most program operators had to fund-raise for program loan funds and administer these funds. Most program operators (except ISED) were already running programs that offered elements of the SEID treatment (such as business skills or life management training) to disadvantaged populations, but the full SEID model was without precedent except at WEDCO, and even WEDCO had never focused on welfare recipients or coordinated with the welfare system to the extent required in SEID.

SEID is not a program that can "run itself," even if it is placed in a relatively resource-rich institutional setting. The four agencies that succeeded in implementing all the necessary services – ISED, WEDCO, Mid-Minnesota, and Canton – were either independent organizations or very specialized, self-contained branch organizations for which the program was a major undertaking consonant with the central mission of the organization. Staff and administrators devoted a large share of their energy and efforts to putting SEID in place, and their philosophical commitment to it made them extend themselves well beyond a conventional, nine-to-five day.

The two agencies that did not successfully implement the program – Meridian and Detroit's Highland Park – would seem to have been the most advantaged potential service providers in the demonstration (both are based in community colleges). However, expected donations of staff time and resources from the parent organization did not fully materialize as other priorities overtook the SEID demonstration. Meridian suffered the severe recruitment problems alluded to above, while Highland Park failed to provide loan opportunities or sufficient technical assistance to enrollees.

- **Most program operators modified their programs as their experience in serving an AFDC population grew. They added services designed to**

help their enrollees cope with stress and the challenges of the program, and increased the level of up-front screening of applicants in order to concentrate on those with stronger prospects for business success.

Over the course of the demonstration, program operators reformulated the basic program model by adding training and counseling services designed to address the clients' unfamiliarity with the mainstream business world, weak self-esteem, and lack of life management skills.

As SEID was originally envisioned, program operators would not screen out any applicants because of the well-known difficulty of predicting what business ideas will or will not pay off. However, local staff came to recognize that they were falling far short of the intended targets for business start-ups, in part because they were devoting limited staff time to clients facing many obstacles to successfully running a business. In response, staff in most sites gradually moved to more up-front assessment of the proposed business idea and the client's capacity to implement it. While continuing to believe that it is difficult to identify future winners, staff implicitly decided that they could identify likely business failures.

- **Getting clients to complete business plans and open a business proved difficult and resulted in the number of businesses begun under SEID being quite small. Fifty businesses were opened as of September 30, 1989, well below initial expectations. Approximately 25 percent of SEID enrollees opened businesses within seven months of enrollment.**

A total of 64 clients (or 30 percent) completed a business plan in the 13 to 20 months of program operation ending September 30, 1989. On average, participants were able to finish business plans within four months of enrollment (as noted earlier, the local programs had different start-up dates). Fifty of these enrollees – four-fifths of all business plan completers – were able to obtain start-up financing, if needed, and began operating a business.

At the outset of the demonstration, program organizers and sponsors did not know whether the business start-up goals agreed to by OFA and the states were achievable because of the new and untried nature of the SEID treatment. Program operating experience suggested that the number of SEID business start-ups would fall far short of the federal target of 100 to 202 new businesses in each state by 1992. Federal and state authorities accepted this as one of the lessons of the demonstration and did not hold the programs accountable to these goals.

- **Business ideas developed by SEID clients were highly varied. Many proposed selling to markets outside poor neighborhoods, which offered greater potential demand and profitability. Start-up loans were usually necessary but tended to be small.**

The businesses proposed by SEID participants included desktop publishing services, take-out restaurants, office cleaning services, and retail sales of custom-made clothing and jewelry. Most required start-up loans, usually in amounts under $5,000. Program loan funds were the source of capital accessed most commonly by SEID business operators, followed by other private and nonprofit loan funds, commercial banks, and family or friends. In the period covered by this report, most SEID businesses had no employees apart from the actual business operator.

- **The waiver of particular AFDC regulations affected SEID program operations and participants in several ways: Waivers helped attract welfare recipients to SEID, influenced the planned rate of business development by guaranteeing 12 months of continued income support for business operators, enabled those who completed a business plan to borrow the start-up capital, and held down the number of two-parent AFDC households able to participate in the program.**

The special SEID waivers were designed to allow the self-employed to accumulate business assets, take out loans, and reinvest business profits. However, because so few people reached the stage of actually operating a business, the effect of particular waiver provisions on business operations could not be assessed in any detail. Lessons did emerge, however, on the way waivers affected recruitment, business plans and business openings, and the composition of the SEID participant group.

Program operators report that the waiver of standard AFDC regulations was an important attraction of the SEID program. Welfare recipients responded to the opportunity to finance and open a business without jeopardizing their AFDC grants or eligibility. However, program operators also felt that they were prevented from enrolling some appropriate candidate business operators because the federal government limited the number of two-parent AFDC cases that could operate businesses under the waivers (ranging across states from 10 to 40 cases over the course of the demonstration). The great majority of these cases are headed by unemployed fathers, who typically leave AFDC relatively quickly. The federal government did not consider an intensive intervention such as that tested in SEID appropriate for this group.

- **The 12-month time limit of the waivers motivated SEID staff in some states to delay requesting waivers for business operators until the businesses began to generate considerable income.**

SEID program operators found that they did not need the waivers protecting business income from AFDC grant calculations until the later months of business operations, when businesses started to turn a profit. However, waivers were necessary in the first months of business operations to enable clients to take out start-up loans in those areas in which such loans were not already protected by state welfare regulations.

- **Despite implementation problems, many of the SEID programs continued to receive strong support from the states and local communities, suggesting that state officials value the programs for more than just business start-ups.**

Many legislators and agency staff believe that self-employment programs provide a special group of welfare recipients with an avenue of opportunity to better their lives. Beyond that, they view such programs as a way to counter the public's negative impressions of welfare recipients, in the process building more support for state social welfare programs. Support for SEID was especially strong in rural areas with depressed local economies, where the small number of employers and job openings limited the effectiveness of programs designed to help welfare recipients find a conventional job. Local community leaders were excited about individual success stories, and this improved program access to local resources.

IV. Conclusion

The sponsor of SEID, the Corporation for Enterprise Development, did not envision that it would be a viable option for a large percentage of people receiving AFDC, but they hypothesized that it would be an attractive option for significant numbers of women. Indeed, one purpose of the demonstration was to discover the level of client interest in the program and the scale at which it could be operated.

The evidence to date suggests that this initial caution was warranted: All the SEID programs fell far short of initial expectations for business openings. The business start-up goals agreed to by OFA and the states were originally viewed to be high. In their program operating experience, sites fell so far short of even approaching these goals that organizers, sponsors, and OFA accepted the idea that SEID business development would occur on a far smaller scale than originally envisioned. There are several reasons for this. SEID requires

program operators to deliver an unusual mixture of personal development and support services as well as small business development services to a population that faces great circumstantial and personal barriers to business success. Implementing such a model requires considerable investment and flexibility on the part of even the most qualified and experienced agency.

It should be recognized that self-employment is an approach that is appropriate to only a select few of those receiving welfare. The scale of the program is limited by the same features that give the program its appeal: its capacity to attract welfare recipients who have an unusual combination of advantages (high levels of education and work experience compared to the rest of the welfare caseload) and disadvantages (relatively long spells of welfare dependence) and to involve them in an unusually individualized, demanding, and ambitious set of services. Thus, SEID is not an appropriate program strategy for welfare administrators seeking to move a significant portion of AFDC recipients off the welfare rolls. Still, welfare administrators can play an important role in such programs. As this report shows, good ties with the welfare agency aid in recruitment of clients. In addition, welfare agency staff must apply the usual AFDC eligibility and grant calculation rules, designed with regular employment in mind, to the special circumstances of the self-employed.

Despite the challenges the SEID program presents, because of the philosophical value of entrepreneurship in the United States, SEID attracts the support of the public, legislators, and funders who normally might not be interested in a welfare employment program. Much of the appeal of the project resides in its power to help counteract negative stereotypes about welfare recipients, including those held by welfare recipients themselves. However, as SEID program operators have concluded, it would be wise to broaden their client base beyond welfare recipients in order to increase their chances of reaching more of those individuals with the potential to become successful entrepreneurs.

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ABBREVIATIONS

AFDC	Aid to Families with Dependent Children
AFDC-U	Aid to Families with Dependent Children-Unemployed Parent
CAP	Community Action Program
CFED	Corporation for Enterprise Development
CMIF	Central Minnesota Initiative Fund
CSBG	Community Service Block Grant
DED	Department of Economic Development (Iowa)
DEED	Department of Economic and Employment Development (Maryland)
DHS	Department of Human Services (Iowa)
DSS	Department of Social Services (Michigan)
FSA	Family Support Act of 1988
GED	General Educational Development Certificate
HHS	U.S. Department of Health and Human Services
IETP	Individual Education and Training Plan
ISED	Institute for Social and Economic Development
JOBS	Job Opportunities and Basic Skills Training Program
JTPA	Job Training Partnership Act of 1982
MCC	Meridian Community College
MDRC	Manpower Demonstration Research Corporation
OECD	Organization for Economic Cooperation and Development
OFA	Office of Family Assistance
PIC	Private Industry Council
RFP	Request for Proposals
SBA	Small Business Administration
SBDC	Small Business Development Center
SBM	Small Business Management Program
SCORE	Service Corps of Retired Executives
SDA	Service Delivery Area
SEFI	Self-Employment Fund of Iowa
SEID	Self-Employment Investment Demonstration
SELP	Self-Employment Loan Program
SSBG	Social Service Block Grant
SWIM	Saturation Work Initiative Model
TCC	Tri-County Community Action Program
WEDCO	Women's Economic Development Corporation
WIN	Work Incentive Program

CHAPTER 1

INTRODUCTION

Self-employment is receiving increasing attention as a possible route to self-sufficiency for some low-income people. Traditionally, most efforts to help the poor escape poverty and reliance on public assistance have sought to place them in jobs in existing businesses. Yet in some areas few businesses are hiring new employees because of the depressed local economy, and many employers are reluctant to hire disadvantaged workers, especially those receiving public assistance, who are sometimes seen as lacking basic work and academic skills.

The Self-Employment Investment Demonstration (SEID) is a test of the feasibility of operating a program to encourage self-employment by recipients of Aid to Families with Dependent Children (AFDC), the largest federal cash assistance program in the United States. The AFDC program provides monthly grants to more than three million households, most of which are headed by a woman and all of which include children under 18 years of age. SEID is designed to help AFDC recipients open their own businesses by means of a three-fold intervention. SEID clients receive:

1. intensive training in the personal and technical skills needed to start and manage a small business;

2. exemption from certain AFDC regulations that hinder self-employment by those receiving public assistance (primarily concerning the treatment of business assets and income); and

3. assistance in applying for business financing and, in most sites, access to special sources of funds if conventional bank financing is not available.

Four states (Iowa, Michigan, Minnesota, and Mississippi) have been participating in SEID since its inception in 1987.[1] They have sponsored programs in a total of seven localities.

SEID was developed by the Corporation for Enterprise Development (CFED), a nonprofit organization based in Washington, D.C., that seeks to increase the economic opportunity of low-income people through innovative economic development programs. CFED recruited states to

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[1]Maryland joined the demonstration in 1988 and enrolled its first cycle of SEID clients in October 1990. Its later start precluded its being included in the full analysis of program implementation. However, Maryland's early planning process is described in Appendix A.

participate in SEID, assisted them in applying for waivers of certain AFDC regulations and in raising supplemental funds, and provided technical assistance on program design and management. Welfare departments in participating states submitted applications for needed waivers to the Family Support Administration – now the Administration for Children and Families – of the U.S. Department of Health and Human Services (HHS). They also identified and contracted with local service providers to recruit and serve AFDC recipients in self-employment training programs. The Manpower Demonstration Research Corporation (MDRC), a nonprofit research organization, is conducting a multi-year, independent study of the implementation of SEID under contract to CFED.

This report examines the process of putting SEID[2] in place at the state and local levels, early program implementation (including recruitment of AFDC recipients), and the experience of clients in the program.[3] This chapter examines the origins and goals of SEID, identifies key implementation challenges faced by states and service providers, presents a composite profile of a successful SEID client's program experience, and gives an overview of the key research questions and the structure of the report.

I. The Origins and Goals of SEID

Three factors have drawn increasing attention to self-employment:

1. new thinking on economic and community development;

2. research findings about normal welfare turnover – the movements of recipients on and off AFDC – and about the effectiveness of low-cost welfare-to-work programs;[4] and

3. other countries' experiences in supporting self-employment for low-income people, including some receiving transfer payments.

While these developments have contributed to the emerging interest in self-employment for low-income people, the discussion that follows will show how they also have highlighted the difficulties of running a successful program.

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[2]In this report, SEID is used to refer both to the demonstration and to the program model it tested.

[3]A later report, as tentatively conceived, will include further analysis of program implementation and the experiences of participants as well as an estimate of program costs.

[4]These programs were designed to increase the wage or salary employment of AFDC recipients, primarily through job search assistance or unpaid work experience.

A. New Thinking on Economic and Community Development

Until recently, economic development policy in many states and localities centered on attracting larger firms that were choosing a location for a new plant. This focus rested on two assumptions: (1) firm moves were an important source of employment change (both its growth and decline) and (2) larger firms generated the most new growth. Research over the last two decades has called both of these assumptions into question. The movement of firms across state or even metropolitan boundaries is relatively uncommon, and small businesses generate a significant amount of new employment.[5] The shift to a service-oriented economy reinforced the need for a change in view. Service firms now employ a majority of workers, tend to be small, and operate in markets with low barriers to entry (especially for capital and often for specialized skills).

During the late 1970s and the 1980s, many states and localities deemphasized the traditional "smokestack chasing" through subsidy wars. They paid greater attention to "growing their own" businesses by encouraging small business start-ups and expansions. But this approach is not without its own problems. Many new businesses fail; estimates vary greatly but range as high as 70 percent within five years. Furthermore, in the service sector especially, the likelihood of success is strongly affected by the health of the surrounding local or even neighborhood economy. Finally, the bulk of small businesses' contribution to growth comes from a few big winners, and it is very difficult to identify likely winners in advance.

In the 1970s and 1980s, social and economic change produced severely depressed local economies in some rural areas, smaller towns that had been dependent on a single industry, and central-city neighborhoods with high concentrations of single-parent families. The "grow-your-own" small business approach had the appeal of necessity in these circumstances, since few of these areas had the resources needed to attract major new employers. Self-employment, in fact, often serves as the employer of necessity in hard times; for example, in periods of recession, the proportion of the work force reporting self-employment rises as wage and salary employment becomes harder to find and people create their own employment opportunities. Furthermore,

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[5]See, especially, Schmenner (1972), Struyk and James (1975), and Birch (1979) for important background information on this new view. Doolittle (1985) reviews the international research on this issue. Birch estimated that between 1969 and 1976, businesses beginning the period with fewer than 20 employees accounted for 66 percent of all new employment in the United States. Armington and Odle (1982), using the same data but different analytical methods, found the contribution of small businesses smaller but still significant.

encouraging small business and self-employment – a natural extension – held out the hope of creating new role models within the community.

The social and economic advancement of women also led to increased interest in self-employment. Women, who have traditionally encountered discrimination in wage and salary employment, increasingly saw self-employment as a way to advance through their own initiative. Others saw it as a way to have more control over their work life and to balance the competing demands of earning a livelihood and being a good parent. Organizations such as the Women's Economic Development Corporation (WEDCO) in St. Paul, Minnesota, emerged to provide technical assistance to women seeking to start their own businesses.[6]

As the new emphasis on the "grow-your-own" approach came to be accepted, development officials grew accustomed to high business failure rates, even in successful public programs. They would typically support many different projects, knowing that the odds of any one of them being a major success were small. This led economic development proponents of self-employment to hold a set of expectations about SEID that were radically different from those held by welfare officials, who were influenced by welfare employment research and experience.

B. Research Developments in Welfare Employment Programs

Two types of welfare research provide relevant background for SEID. First, recent research on welfare programs has increased understanding of the underlying patterns of moves on and off AFDC, overturning the view that welfare becomes a permanent support for all those who receive it. Second, studies of the impact of low-cost welfare-to-employment programs have found positive but modest impacts on employment and earnings, setting a standard of comparison for the impacts of other programs and fueling calls by some for more intensive programs of education and training for those receiving public assistance.

1. Research on welfare turnover. Influential research by Mary Jo Bane and David Ellwood found that recipients were a diverse group:

> The AFDC program seems to serve two purposes for two different groups: short-term relief and long-term income maintenance. Most of the women who go on AFDC have short spells. At the same time, the bulk of person-years of AFDC receipt and the bulk of AFDC expenditures are accounted for by women who have spells of eight or more years.... Almost half of all the women who

[6]WEDCO, as will be discussed later in this report, is one of the sites in SEID and initially provided technical assistance to other programs in the demonstration.

> begin a spell of AFDC receipt leave the program within two years. Of those who remain into a third year, however, 60 percent will have spells lasting at least six years, and 35 percent will have spells of eight years or more.[7]

These findings had an important implication for those designing and studying programs intended to encourage self-sufficiency, including SEID: The percentage of participants who leave welfare after a program is a poor measure of the difference it makes, since normal welfare turnover will lead at least some to leave on their own. Furthermore, programs can achieve high rates of post-program "success" by enrolling persons likely to leave welfare on their own. Research has now moved beyond simple measures of post-program status (often labeled program "outcomes") to careful tests of program "impacts" (the difference made by the program).[8]

2. Research on program impacts. This second line of research has also had implications for the development of SEID.[9] Studies of low-cost, mandatory programs of job search assistance and unpaid work experience for the parents of children receiving AFDC (sometimes labeled "workfare") have consistently found that they led to modest increases in the rates of employment and in the earnings of those required to participate and (less consistently) to declines in their dependence on welfare.[10] In addition, these low-cost programs were found to be cost-effective: that is, their benefits exceeded their costs.

The impact research also provided some cautions for program designers. Importantly, these job search-based programs had virtually no impact on the employment and earnings of the most job-ready AFDC subgroup (because they were already likely to find employment quickly) and did

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[7]Bane and Ellwood (1983), p. ii.

[8]To assess the difference a program makes, it is necessary to compare the experiences of a group given access to the program with those of a similar group not given access to it. By comparing the employment and welfare receipt of the two groups, it is possible to "net out" the normal welfare exits and employment that would occur even if the program did not exist.

[9]This research is summarized in Grossman, Maynard, and Roberts (1985), Gueron (1987), Friedlander and Gueron (forthcoming), and Gueron and Pauly (1991).

[10]These programs require those subject to the legal mandate to participate in specified activities as a condition of receiving public assistance. Under the Work Incentive (WIN) Program, which was part of AFDC from 1967 to 1990, mothers with preschool children were exempt from these requirements. The Job Opportunities and Basic Skills Training (JOBS) Program, passed as part of the Family Support Act of 1988 (FSA), replaced WIN in all states at the end of 1990. The upper range of impacts found in studies of the WIN-era, low- to moderate-cost programs comes from research on the Saturation Work Initiative Model (SWIM) operated by San Diego County. In that study, researchers found that those subject to the mandate averaged about $350 more in earnings in the first year of follow-up (this average includes those with zero earnings and those working) and $650 more in the second year than did a similar group not subject to the mandate. Those subject to the mandate were also less likely to be receiving AFDC at the end of both one year (66 percent versus 72 percent) and two years (51 percent versus 59 percent). See Hamilton and Friedlander (1989).

not have consistent impacts for the least job-ready subgroup (who appear to need a more intensive intervention). The programs' positive impacts came primarily from their having led a middle subgroup to achieve more employment and earnings. Furthermore, the average level of earnings for those in these programs remained quite low, and the programs in general had little apparent effect on poverty. Finally, in very depressed rural or small-town areas, these programs did not always produce any increase in employment or welfare savings. With the limited number of local employers, expanded job search was unlikely to turn up any new employment leads. Similarly, unpaid work experience was unlikely to lead to a paid job. Some have generalized this finding to all areas with high unemployment, including seriously depressed central-city neighborhoods, and have urged efforts to create new jobs or self-employment opportunities.[11]

3. **Implications for program design.** This recent body of research has been used to support two different views of existing welfare-to-employment programs and of the appropriate next steps in policy development. One view emphasizes the goal of reducing reliance on public assistance (and thereby cutting welfare costs), while the other stresses the goal of raising welfare recipients' incomes. These competing views influenced the design of SEID and were reflected in the provisions of other, larger programs for welfare recipients such as the JOBS program.[12]

Those emphasizing the goal of reducing welfare "dependency" view the welfare savings achievements of low-cost programs as the standard against which other programs are judged, and they focus on the subgroup findings as a significant lesson. Understanding the patterns of welfare dynamics, they are concerned that programs not enroll those who are likely to leave assistance on their own. Aware that low-cost programs of job search and unpaid work experience have been found to be cost-effective in a variety of settings, they would require more intensive and expensive program interventions to have larger impacts on earnings and welfare receipt. The experience

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[11]Concern about the effectiveness of low-cost programs in urban neighborhoods was also reinforced by the lack of employment, earnings, or welfare impacts in the Cook County (Chicago), Illinois, program. It required WIN-mandatory applicants and recipients to participate in job search and unpaid work experience. See Friedlander et al. (1987). The authors attributed this finding to the very small amount of resources available to administer the program and provide services relative to the number of persons covered by the mandate, but an alternative explanation could focus on the limited employment opportunities for welfare recipients in this urban area.

[12]The JOBS program required states to implement, by October 1990, new programs of education, employment services, and training designed to increase the self-sufficiency of AFDC recipients. It provides new funding above that available under its predecessor, the WIN program. Under JOBS, states are encouraged to develop an array of services ranging from low-cost job search assistance to more intensive services such as basic skills education, occupational training, and, conceivably, self-employment training.

in economic development is that many businesses fail, but those emphasizing reduced welfare dependency expect relatively high rates of post-program success. (In this setting, the definition of success includes, but is not limited to, exits from welfare.)

Reflecting this goal of employment and training programs for welfare recipients, federal rules for a waiver of AFDC regulations have typically required that the initiative be "budget neutral" from a federal perspective. Thus, at a minimum, the initiative should not lead to increased federal costs, taking into account federal funding of both welfare assistance and program administration expenses.[13] To pass this test, an initiative must "pay for" program operating expenses through a reduction in welfare assistance. To accomplish this, more people who are still on the caseload must receive less assistance than they otherwise would and/or leave welfare sooner or remain off longer.[14]

Those placing more emphasis on reducing poverty draw different lessons from the accumulated research on welfare-to-work programs. They argue that the modest impacts of low-cost programs support experimentation with more intensive and expensive programs of education and training designed to increase the "human capital" of persons receiving public assistance, and that this greater up-front investment has the potential to reduce long-term receipt of welfare and provide greater lifetime earnings and income. These programs, they maintain, can even be worthwhile for those who are likely to leave welfare relatively quickly because such intensive interventions can help reduce poverty, not just welfare spending. In fact, they argue further, some more advanced types of training, such as SEID, might be *more* appropriate for the relatively job-ready: They are more likely to master the new skills being taught in the programs and thus will increase their long-term earnings.

As later discussions of the policy issues surrounding SEID will illustrate, these alternative views of the goals of employment programs shape their design and evaluation. Under the first view, it becomes central to avoid selecting more job-ready participants ("creaming") because they

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[13]Under AFDC, the federal government funds a portion of cash assistance ranging from 50 to 83 percent, based on the per capita income of states. Assistance payments must be paid to all those who request them and meet the eligibility rules; hence, they are often called an entitlement. The federal government funds 50 percent of most AFDC administrative expenses. Certain qualifying expenses under the former WIN and current JOBS programs are 90 percent federally funded.

[14]As will be discussed later, states applying for waivers to participate in SEID were required to present projections of business start-ups and resulting exits from AFDC that would assure revenue neutrality for the federal government.

are more likely to leave welfare on their own. Under the second view, a broader range of program outcomes – besides exits from welfare – is important.

C. International Experience with Self-Employment Programs

Support for self-employment and very small enterprises is a part of economic development policy in many countries, in both the Third World and Europe.[15] Several Third World countries have sought to stimulate micro-business development by making small loans available to poor entrepreneurs, with the programs in some instances being administered by community members.[16] These programs often seek to promote slow growth in enterprises to avoid overextending the owner financially and to allow a chance for management skills to develop. The programs expect the proprietor to have detailed knowledge of the proposed business, and they rest on the assumption that debt at market or near-market rates instills financial discipline.

Since the early 1980s, the United Kingdom (U.K.) and France have offered individuals receiving unemployment insurance benefits and supplementary benefits the option of converting these payments to self-employment allowances.[17] Both programs originated during a period of high unemployment, when officials in the U.K. and France were struck by the relatively strong employment growth in the United States and by the research of David Birch and others citing the central role of small business in the American expansion. In the U.K., participants in the Enterprise Allowance Scheme receive a monthly allowance for up to a year while operating their business.[18] (For the majority, this allowance is slightly higher than unemployment benefits.) In France's ACRE programs, participants receive a lump-sum payment instead of a monthly allowance, with the amount varying with the length of unemployment at application and the type of benefit previously received.[19]

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[15]For reviews of these efforts from varying perspectives, see Balkin (1989), Bendick and Egan (1986), and Dallinger (1989).

[16]Examples of this approach are the Grameen Bank in Bangladesh, India's Self-Employed Women's Association, efforts reviewed by the U.S. Agency for International Development under its PISCES project, and work by ACCION in Latin America.

[17]Supplementary benefits are available for an indefinite period to anyone whose income falls below eligibility standards.

[18]Under the rules in force in the mid-1980s, individuals seeking to participate in the U.K.'s Enterprise Allowance Scheme had to have been out of work for at least eight weeks, be between age 18 and retirement age, and have 1,000 pounds to invest in the business.

[19]The sooner after becoming unemployed a person applies, the greater the payment. This lump-sum payment can be used to start a new business or to purchase an existing one.

Thus, the key feature of both programs is financial support during the start-up phase. There is little screening of applicants' business ideas, and – at least as originally conceived – virtually no business training is required or offered.[20] Importantly, both programs are operated in societies with a developed social welfare system, so that health care and income support are available for those whose ventures fail or do not produce sufficient income.

Both programs reached a large scale, with a total of more than 700,000 people having participated by 1988.[21] Short-term follow-up of business operators found surprisingly high business survival rates: In a U.K. survey, 85 percent of businesses were still operating at the 12-month point (when the allowance ends), 66 percent at 18 months, and 57 percent at three years. French figures were similar. This experience prompted other developed countries to adopt similar programs.[22]

Small business policy in the United States has been quite different, with major implications for the current SEID experiment. Since 1953, the Small Business Administration (SBA) has promoted small business development through training and technical assistance and grant and loan programs.[23] However, the SBA has typically not focused on very small businesses, nor has it offered the type of training needed by relatively inexperienced or seriously disadvantaged business operators. Nevertheless, this emphasis on training in business management skills has carried over into the design of U.S. experiments to promote self-employment for low-income people, including SEID.[24]

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[20]In recent years, the Enterprise Allowance Scheme has moved toward offering some training in small business management.

[21]See Dallinger (1989).

[22]Other countries experimenting with the approach include Australia, Belgium, Finland, Ireland, the Netherlands, Norway, Spain, Sweden, and the United States. Eighteen members of the Organization for Economic Cooperation and Development (OECD) currently operate self-employment programs.

[23]The SBA is a federal agency founded in 1953 as part of the U.S. Office of Business Development to stimulate economic development by protecting and assisting small businesses. The SBA supports Small Business Development Centers, the Service Corps of Retired Executives (SCORE), and numerous other technical assistance efforts.

[24]For example, in the State of Washington, the U.S. Department of Labor is experimenting with a program to encourage self-employment for recipients of unemployment insurance benefits. Those who choose to start a business will receive a lump-sum payment equivalent to their earned unemployment insurance compensation and will be provided with entrepreneurial training and business assistance. See Dallinger (1989).

D. The Expectations for SEID

While these streams of thought all contributed to support for the SEID study, their very diversity meant that people could hold different expectations about the goals of the program. From an economic development perspective, the usual high failure rate of businesses is the central fact of life. For a program to increase employment substantially, it must support many business start-ups or expansions, expecting most to fail eventually or to have little sustained growth, but seeking a few "winners" that employ many people. For officials who emphasize a decline in welfare dependency and achievement of welfare savings as a program goal, SEID should enroll clients who are unlikely to leave welfare on their own. It should lead to quicker exits from welfare and/or longer periods off welfare than would otherwise occur. Officials emphasizing income gains and poverty reduction would have SEID enroll the special type of client able to master the skills needed for self-employment. In this view, the real goal of SEID would be long-term increases in income and reductions in poverty, rather than shorter-term impacts on welfare receipt. SEID could be successful if it leads women to experiment with self-employment but then to shift, with a new sense of commitment, to a conventional training program. The goal, in this view, is to improve the personal circumstances of these women, whether through self-employment or by other means, rather than either creating new jobs (the economic development objective) or cutting welfare spending.

Many supporters of self-employment especially emphasized the goal of improving the personal circumstances of participants because they were committed to the goals of both greater empowerment and economic equality for women. For them, the real goal was helping women, not creating jobs or reducing welfare spending. Self-employment was seen as a vehicle to make an important difference in the lives of a few women who could then serve as role models for others.

The international experience, though it differs greatly from SEID in clients and program services, also contributed to the expectations for SEID. It led some to expect that self-employment programs could be operated at a large scale with relatively quick movement through the program to business start-ups. This diversity of objectives and expectations makes both the operation of SEID and its evaluation a complex task.

II. The Challenges of Operating SEID

SEID was a new venture, facing special challenges because of the limited resources of the intended clients and the institutional setting in which it would operate.[25] Welfare agencies must apply for and administer the waivers of several usual AFDC rules and reach out to other types of organizations for expertise on business training. These training agencies must understand both business issues and the special problems faced by welfare recipients, including child care needs, lack of capital, housing problems, minimal exposure to the business world, little social support for their self-employment efforts, and the absence of a network of initial customers – friends and relatives with money to spend – which is often vital to new business entrepreneurs.

Research and operating experience suggests that there are several key challenges for CFED, states, and local service providers in operating SEID:[26]

1. **Selecting sites.** States must be willing to invest the effort to get the waivers and administer the program. With limited management resources and many competing demands on their time, many state officials are already hard-pressed. CFED had to build support for the program at the state level that was strong enough to last through the inevitable delays in getting a demonstration going. States, in turn, faced the challenge of finding program operators that combined knowledge about training for self-employment with an understanding of the world of welfare recipients.

2. **Developing curricula.** While there are many existing programs providing training in small business management, serving SEID clients poses special problems. Service providers had to create new teaching materials and/or adapt existing courses and determine the proper pace at which to cover subjects.

3. **Recruiting clients.** SEID program operators had to recruit clients with varying levels of job-readiness (to avoid charges of "creaming") and serve a large number of them in the program to meet targets for business starts leading to exits from welfare. To meet these goals, they typically had to move beyond those recipients who were already self-employed and get new people interested in this opportunity. Finally, they needed to develop some way (through staff assessment of applicants' personal resources and business idea or by self-selection) to avoid devoting program resources to those who were unlikely to succeed in the program.

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[25]Even established organizations such as WEDCO were not used to serving clients within the structure of special waivers of AFDC rules, which led to a focus on the scale of operation, the characteristics of the clients, and revenue neutrality.

[26]The U.S. Department of Labor has a similar framework for implementing self-employment programs. See Dallinger (1989).

4. **Getting clients through the process of business training.** Programs could not succeed if clients "bogged down" in the training phase. The training had to be interesting, prove accessible, and convey the needed material; support service needs of clients had to be met so they could participate; and staff often had to find ways to strengthen the self-confidence and motivation of clients.

5. **Completing a business plan.** Clients must be able to apply the general concepts learned in business training to their own business idea, and to lay out a strategy for developing their business to the point where they can get off welfare. But for many clients, accustomed to the "passivity" of welfare or the structure of conventional training courses, this step marked a real break with their previous experience.

6. **Getting the needed financing.** Most businesses require some start-up capital. SEID clients are unlikely to be able to get this on their own. Programs needed to help clients access new sources (through special agreements with conventional lenders or by creating special funds) and use the proceeds responsibly.

7. **Operating the business under the AFDC waivers.** Most new businesses do not provide their operators with much personal income during the initial start-up phase. The AFDC waivers are designed to allow AFDC grant calculations to recognize this, rather than automatically presume that the assets and revenue of the new business are accessible to the owner. Staff must develop procedures to apply these special rules in SEID cases without undue administrative burden on the client or the welfare agency.

III. Composite Profile of a Successful SEID Client's Program Experience

Because SEID is an innovative undertaking, it may be useful to "walk through" the steps of the program using a composite portrait of a successful client. A potential client could hear about SEID from any number of sources including TV and radio coverage, word of mouth, or a church or community group. However, she (or, in some cases, he) is most likely to learn of it through a flyer mailed by the SEID program operator or the welfare department inviting her to an orientation meeting. The typical SEID client has tried working full-time in the past but made low wages, especially for a high school graduate with more than one child to support. SEID recruitment materials present self-employment as a path out of welfare to financial independence, and offer training and assistance to help the client become an entrepreneur. Entrepreneurship may sound attractive, too, because the client may well have been self-employed in the past.

A group orientation is usually the client's first direct contact with the program. There she meets program staff and other people interested in opening their own businesses. She hears about the fulfillment to be found in being your own boss, "firing" welfare, and eventually achieving

a decent standard of living. The trials of self-employment are emphasized as well – long hours, hard work, financial demands, and the need to give priority to the business over inessential personal spending (for new clothes, perhaps, or gifts for children). She is also clearly informed that she will have to report all self-employment income to the welfare department but that special provisions will be made for a year so she can plow most of her profits back into the business. Then she participates in a session in which the group discusses the personal traits needed to be an entrepreneur and the advantages and disadvantages of operating your own business.

After orientation, the first phase of the program is a series of developmental workshops, which last from one to five weeks. In most sites, these focus on development of the qualities needed to be an entrepreneur (such as self-esteem, decisiveness, and realistic self-assessment) and development of the business idea. Typically, she will participate in role-playing, discussion, and brainstorming sessions led by staff with entrepreneurial experience and teaching or counseling backgrounds. For example, she may spend class time identifying and discussing the traits, skills, and experiences that qualify her to be a good entrepreneur. Or she and her fellow participants may try to identify the financial, domestic, and psychological barriers blocking them from opening a business, and brainstorm on practical strategies for overcoming them. In these workshops, she will also begin testing the feasibility of her business idea, the first step in turning it into a business plan. The client is challenged by the staff and her peers to develop and present an increasingly concrete and detailed picture of the business she would like to operate – the product or service, customers, and anticipated first-year earnings. She will also be asked what she intends to do if the business does not produce enough first-year earnings to enable her to be independent. Every workshop ends with a homework assignment designed to further the client's understanding of what is involved in being an entrepreneur, what her own qualifications and weaknesses are as a potential entrepreneur, and the feasibility of her business idea.

At some point – typically at the conclusion of the developmental workshops – program staff interview the client one-on-one. To some extent, the interview focuses on the business idea. Staff probe to see how practical and concrete the idea may be, how committed the client is to such a business, and how profitable the business is likely to be. For example, if the client wants to open a sweet shop, she is questioned about her experience as a candy-maker, the amount of candy she thinks she can produce, her attitude toward spending long hours tending shop, and the amount of money she feels she needs and can reasonably expect to make. In addition, the personal qualities and situation of the client are examined. For example, does she

have overwhelming domestic problems (such as an abusive spouse or male partner) or responsibilities (such as nursing a sick or disabled family member) that might prevent her from focusing on a business, at least at this time? Depending on the client's performance to date and the results of the interview, program staff may counsel her to leave the program, or they may enroll her for the full array of business training and technical assistance.

In business training, the client learns the skills needed to open and operate a business, such as analyzing the competition, marketing, and financial management. Working in a group setting with an instructor, clients learn general concepts and then apply them to their own business idea through homework assignments involving independent research and documentation. For example, the client might make a survey of local candy stores to check the range of prices charged for the sweets she would like to market and to get ideas for promising products. She may stake out an available storefront to count the number of potential customers who pass by during business hours. She may go to the library or appropriate government offices to look up the licensing and insurance requirements applicable to sweet shops.

After finishing the training class sequence, which typically takes five to nine weeks, the client will probably need to do more work on the business plan, and she continues to work one-on-one with SEID staff to produce it. This document typically includes a technical and detailed picture of her marketing plan (describing her product or service, market area, target customers, analysis of the competition, location, promotional strategy, distribution and selling methods, pricing, credit policy, and packaging) and financial plan (outlining the amount of the loan the business will need and the repayment plan; projecting monthly cash flow over a two-year period based on estimates of income from sales; estimating the cost of producing and/or distributing the goods; and estimating operating expenses such as rent, advertising, and equipment).

While producing the plan, she works closely with SEID staff to ensure that the two-year business development strategy documented in her plan will eventually produce enough profit to allow her to live off business income rather than welfare. Approval of the plan by SEID staff depends upon its meeting this requirement. If the client is unable or unwilling to find a way to conduct business in a sufficiently profitable manner (for example, if she insists on hiring employees she cannot afford or maintaining too low a production level), she is counseled to find a new business idea or an alternative to self-employment.

With a completed, approved business plan in hand, the client has the necessary information to apply for loans from banks or other institutions such as government or nonprofit loan funds,

and/or SEID program loan funds. Typically, it is this last source that will provide the client with start-up capital. When she opens for business, she will continue to be in regular contact with program staff. They provide ongoing bookkeeping assistance and act as advisors, helping the client adapt and rework the business development strategy documented in her business plan as she encounters unforeseen problems and opportunities in the course of actual business operations. For example, if another sweet shop opens in the area, they may help her adjust her pricing structure to remain competitive, and work out the implications of this for her future cash flow. Program staff also make sure the client stays within the special AFDC regulations that enable her to accumulate the capital and equipment necessary to operate her business and to reinvest profits in it. This entails providing AFDC with cash flow statements documenting the fact that the client is using business assets for business purposes without exceeding the limitations established in each state.

IV. The Research Plan and the Structure of This Report

Ultimately, a program like SEID will be judged on the difference it makes in the lives of those who participate, but there are a number of first-order questions that need to be addressed. At this early stage in the development of self-employment programs for welfare recipients, the initial questions concern administrative feasibility, scale, client characteristics, client progress through the program, and qualitative judgments about the most promising operating practices for programs. These are the topic of this report and the research project of which it is a part.[27]

Chapter 2 examines the goals and interest that led states to participate in SEID and the funding sources and administrative arrangements used. Chapter 3 discusses the types of service

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[27]Assessing the difference a program makes in the lives of those who have access to it is very difficult. Just looking at the post-program experience of persons in a program does not provide a picture of the difference it made (or its "impact") because some unknown proportion of program participants would have increased their employment and earnings and left welfare through other means even if they had not been in the program. The research discussed earlier in this chapter on movements on and off welfare and on the impact of welfare-to-employment programs has shown the importance of "netting out" this normal welfare turnover. A random assignment study is the most reliable method for assessing the impact of programs on the self-sufficiency of welfare recipients. Because of the special and hard-to-measure characteristics of those who volunteer for self-employment programs, other methods of impact research seeking to rely on comparison groups other than randomly assigned control groups face very difficult methodological obstacles to success. As part of its research, MDRC is assessing whether a random assignment study is feasible for SEID. Random assignment is currently being used to study the impacts of the U.S. Department of Labor's experiments with self-employment support for unemployment insurance recipients.

providers chosen at the local level, their past experience, the linkages they made with other agencies or individuals to provide the needed services, and the arrangements made for business financing. Chapter 4 presents the program model in each site, both the plan for the service sequence and an overview of actual enrollee participation in each step of the process. Chapter 5 describes the SEID recruitment process, examines who applies for the program, and discusses the screening or selecting of clients to enroll in the program. Chapter 6 examines who enters the program and compares their characteristics to those of AFDC recipients in the area served by the SEID program. Chapter 7 discusses how the programs helped clients learn and apply business management concepts. It describes the clients' initial business ideas, the business training provided and clients' participation in it, and the issues encountered in business plan completion. As this chapter explains, completion of the business plan emerged as a major hurdle for many SEID clients. Chapter 8 discusses the process of going into business under the waiver and describes financing obtained by clients and the businesses that were opened.

CHAPTER 2

STATE-LEVEL ADMINISTRATION

In sponsoring SEID, government institutions – state and federal – tried to combine in a single program some of the goals of economic development and welfare employment programs (employment programs for welfare recipients). Because of the difference in perspectives, discussed in Chapter 1, the SEID program often had no obvious institutional home within either the economic development or welfare department. As a result, much of the initiative for and commitment to SEID at the state level came out of the governors' offices and legislatures. This affected both the process of recruiting states for the demonstration, which is briefly discussed in this chapter, and the institutional arrangements that evolved in the participating states.

CFED took the lead in organizing the program model for the demonstration and contacting potential sites. Over the course of nearly four years, CFED staff refined their ideas about appropriate program services, contacted numerous states about possible participation, and sponsored a conference of interested sites. Minnesota, the home of WEDCO and other strong supporters of self-employment, moved relatively quickly on its own initiative – but with help from CFED – to prepare a formal waiver application and seek federal authority to proceed. CFED then worked with other states to build on Minnesota's waiver application model in preparing and submitting their own requests.

As is typical of early efforts to develop a demonstration of an unusual program, many more than the four states covered in this report were originally interested in participating. However, changing state policy priorities, funding difficulties, lack of strong welfare or economic development agency support, and contracting difficulties eliminated some potential states.[1]

This chapter describes the state-level development and administration of SEID. The first section describes the sources of initial support for state involvement in the demonstration, state administrative responsibilities, and implementing agencies' goals for the program. It also describes the funding sources for training and other program services and how SEID interrelates with other state employment and training programs for welfare recipients. The second section describes the

[1]Among the other states expressing interest were Illinois, New Jersey, New York, Ohio, Virginia, and West Virginia. After the period covered by this report, Maryland joined the demonstration.

waivers of federal AFDC regulations obtained by state welfare departments in order to operate SEID, and the ways in which the waiver requirements set by federal welfare authorities affected program design and objectives.

I. State Involvement in the Demonstration

A. Sources of Support, Agency Responsibilities, and Goals for SEID

Interest in operating a self-employment project for welfare recipients originated in a number of different sources within the four demonstration states (Iowa, Minnesota, Mississippi, and Michigan) including advocates, legislators, and governors' staff. The welfare agency led the state's effort to experiment with self-employment in only one case, Michigan.

In Iowa and Minnesota, a small group of highly supportive legislators, urged on by welfare and entrepreneurship advocacy groups (including WEDCO), placed self-employment on the state agenda. In Minnesota, these activities meshed with the ongoing efforts of the governor's staff to introduce a self-employment project for welfare recipients. The Mississippi governor's staff were discussing legitimizing "underground" welfare entrepreneurs as a part of their consideration of employment program options at the time CFED began recruitment of sites for a national self-employment demonstration.[2] SEID provided an opportunity to do this. Only in Michigan, where the welfare department has initiated several other welfare-to-employment initiatives to address the problems of welfare recipients in urban areas, did that agency lead the state's effort to try out a self-employment program for welfare recipients.

These patterns in the origins of SEID carry through to its implementation. There are two aspects to the administration of SEID: supervising the applications of waivers and supervising the provision of SEID program services. While the welfare department inevitably must supervise the waivers, oversight of service delivery was handled by non-welfare agencies in three of the four states.

As Table 2.1 indicates, Iowa SEID is administered cooperatively by the state welfare agency – the Department of Human Services (DHS) – and the Department of Economic Development (DED). At the suggestion of DHS, the legislature required that the welfare agency subcontract

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[2]By "underground" welfare entrepreneurs, state officials were referring to recipients who were engaged in self-employment but not reporting their income to the welfare department. In a low-grant state such as Mississippi, virtually any income leads to loss of the AFDC benefits.

TABLE 2.1

SEID ADMINISTRATION, FUNDING, BUSINESS OPENING GOAL, AND START DATE

Administering Agency	SEID Program and Administrative Funds: Sources and Amounts		Business Opening Goal	Demonstration Start Date
Iowa				
Department of Human Services (waiver management)	Year 1		202 over 4 years	4/1/88
	Legislative appropriation	$82,610		
Department of Economic Development (oversight of service delivery)	Federal[a]	$77,500		
	Total	$160,110		
	Year 2			
	Legislative appropriation	$115,761		
	Federal[a]	$115,761		
	Total	$231,522		
Minnesota				
Department of Human Services (waiver management)	Years 1 and 2		200 over 4 years	10/1/87
	Legislative appropriation	$500,000		
Governor's Office of Jobs Policy (oversight of service delivery)				

(continued)

TABLE 2.1 (continued)

Administering Agency	SEID Program and Administrative Funds: Sources and Amounts		Business Opening Goal	Demonstration Start Date
Mississippi				
Department of Public Welfare (waiver management)	Year 1		126 over 3 years	4/1/88
	SSBG[b]	$50,000		
	State JTPA[c]	$150,000		
Governor's Office of Federal and State Programs (oversight of service delivery)	MS SDA PIC[d]	$50,000		
	Total	$250,000		
	Year 2			
	SSBG[b]	$50,000		
	State JTPA[c]	$87,664		
	MS SDA PIC[d]	$62,000		
	Total	$199,664		
Michigan				
Department of Social Services (waiver management and oversight of service delivery)	Year 1		100 over 3 years	1/1/89
	DSS welfare employment funds	$428,685		

SOURCES: State waiver applications and information from state SEID liaisons.

NOTES: [a]These funds include only federal funds used for DED and CFED contracts. They do not include the federal portion of AFDC and Medicaid costs.
[b]Social Service Block Grant.
[c]State Job Training Partnership Act.
[d]Mississippi Service Delivery Area Private Industry Council.

oversight and management of the project to DED, an agency specializing in job development programs for low-income people and operating an existing small business loan fund. Both departments embraced the program enthusiastically, but there was initial uncertainty regarding the division of responsibilities and authority. The agencies adjusted by dividing tasks according to agency expertise: DED focuses on loans, fund-raising, and direct supervision of the service provider contract, and the welfare agency focuses on issues relating to welfare eligibility, recruitment of participants, and application of the waivers.

In Minnesota, SEID was initially administered cooperatively through the Governor's Office of Jobs Policy and the Department of Human Services (the state welfare department). The governor's staff selected and supervised SEID program operators, and staff from the state welfare department interpreted and applied the complex provisions of the AFDC waivers. Eventually, as part of a reorganization of the governor's office, staff involved in the program moved to the welfare department and continued to administer the program.

The Mississippi governor's office retained management of all aspects of the program except management of the waivers.[3] While the welfare department continued to express concern about the expense of the program and a preference for workfare,[4] it assumed responsibility for the waivers.

Only in Michigan does the state welfare agency have sole administrative authority for SEID, selecting and supervising program operators and administering the waivers.

State officials administering SEID identified a large number of goals at the outset of the program, reflecting its diverse origins.[5] In the short term, they were most interested in the immediate goals of setting up and delivering services and recruiting clients. However, most state officials also suggested the following criteria as the ultimate measures of the SEID program's success:

- number and longevity of businesses opened;
- departures from welfare through self-employment; and

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[3]In a comprehensive reorganization of the executive branch of the Mississippi state government, administration of SEID was moved from the Governor's Office of Federal and State Programs to the Department of Human Resources, a superagency directly under the authority of the governor.

[4]Workfare involves an employment preparation program in which welfare recipients are given jobs, usually on a temporary and unpaid basis, in order to gain work experience.

[5]These responses reflect opinions of state officials expressed prior to program implementation in Michigan and Mississippi, in the fifth month of program operation in Minnesota, and in the fourth month of program operation in Iowa.

- entry into employment or other education and training programs by clients who do not become self-employed.

Other criteria of success mentioned by officials in some states included: cost-effectiveness of self-employment as an economic development strategy (Iowa, Minnesota, and Michigan), adequate recruitment of clients for the program (Iowa, Minnesota), improvement of client self-esteem (Iowa, Minnesota), institutionalization of the programs and independence from special state grants (Minnesota), and establishment of community support (Minnesota). Most of these objectives reflect the fact that many state officials operating SEID were outside the welfare agency and not focused on the goal of welfare savings.

B. Accessing Resources for the Demonstration

The initiators of SEID in each state faced the task of funding both the program's direct services (that is, business training and loan funds) and support services needed by participants. This could be done in two ways: direct commitment of state funds (and, in some cases, matching federal funds) or efforts to help SEID clients access existing sources of funds.

1. Direct funding for SEID. The sources and amounts of direct funding for SEID program operations are summarized in Table 2.1. The way in which SEID is funded makes the project highly visible and inherently vulnerable to political shifts in the legislatures in Iowa and Minnesota. The state allocation depends upon the support of executive branch officials in Michigan and Mississippi. In Iowa and Minnesota, SEID's state funding is a separate legislative appropriation made to the state welfare department. It must be reauthorized annually in Iowa and biannually in Minnesota. This makes state funding a continuing issue, since proponents of SEID must secure support of legislators every time the budget is reauthorized. Given the slow growth of the programs (as discussed later in this report) and the longer-term nature of program services, this could be a challenge in the early years of the project. The continuing enthusiasm of the Iowa legislature has sustained SEID funding levels in that state. But the Minnesota legislature, while continuing the SEID appropriation, funded the program at a lower level than requested in its first biannual reauthorization in 1989.[6]

The state portion of SEID funding in Mississippi and Michigan is embedded in mainstream budgets and does not require specific reauthorization by the legislature. In Mississippi, state

[6]However, the legislature gave the welfare department authority to compensate for the shortfall by allocating JOBS money to SEID.

funding for SEID is made up of Job Training Partnership Act[7] (JTPA) funds under the governor's control. In addition, demonstration costs are defrayed through social services block grant funding, and the program operators receive funding from the local private industry councils (PICs) under JTPA.[8] Michigan's state allocation comes from discretionary funds of the state welfare commissioner, reflecting the welfare department's strong commitment to the program, along with a loan fund commitment from the Department of Commerce.

2. Accessing support services. In most states in the demonstration, program participants were eligible for support service payments through the existing employment program for welfare recipients. State officials recognized SEID as satisfying the mandate to participate in this program, opening up funding sources for services such as child care and transportation assistance.[9] Though the implementation of JOBS[10] in some states may change the specifics of these arrangements, the pattern is likely to persist.

- **Iowa.** Iowa SEID enrollees have been eligible for support services through the state's welfare employment program, the Individual Education and Training Plan (IETP).[11] Under JOBS (implemented in July 1989), most SEID enrollees are

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[7]The employment and training system established by the Job Training Partnership Act (JTPA) of 1982 is a highly decentralized, federally funded program that provides job training and related services to economically disadvantaged persons. Funds are allocated to the states by the U.S. Department of Labor. The states in turn suballocate the funds to local service delivery areas (SDAs), which encompass units of local government. Governors have administrative responsibility in a number of areas, including the use of discretionary funds that amount to 22 percent of the state's JTPA Title IIA allocation. Many state-level administrative responsibilities are shared with or delegated to the State Job Training Coordinating Council. At the local level, oversight and decision-making functions are shared by the private industry council (PIC) and the local unit of government.

[8]Until 1990, both program operators were located in the Balance of State SDA and enjoyed the support of the Mississippi SDA Private Industry Council, Inc. However, the SDA boundaries were moved in 1990, placing the Canton site outside the Balance of State SDA. The PIC administering Canton's new SDA declined to support the program, leaving its future in question as of August 1990.

[9]The one exception to this pattern is Mississippi. Local JTPA funds pay for support services in Mississippi. Enrollees are paid $1.00 per hour of training for transportation costs, and child care for children under age six is reimbursed on a sliding scale ($10 a week for one child, $15 for two, $20 for three). Mississippi did not implement its JOBS program – with its provision for support services for welfare recipients in employment, education, and training programs – until October 1990.

[10]JOBS is the centerpiece of the Family Support Act, the 1988 welfare reform legislation that affirmed the principle that parents should be the primary supporters of their children and that, for many people, public assistance should be coupled with encouragement, supports, and requirements to aid them in moving from welfare to self-support. The program requires states to provide education, training, and support services for non-exempt AFDC recipients, provides partial support for those services, and encourages states to focus their services on the more disadvantaged members of the AFDC population. JOBS replaces and expands upon the preceding federal welfare employment program, WIN.

[11]IETP reimburses transportation costs up to $60 per month and child care costs at the local going rate.

eligible for support service payments while in business training and exempt from requirements to participate in other JOBS activities.

- **Minnesota.** While enrolled in SEID, Minnesota's SEID enrollees were eligible for support services through Minnesota's former welfare employment program, Project STRIDE.[12] However, the Project STRIDE program was targeted to particularly disadvantaged recipients (such as high school dropouts). As will be discussed in Chapter 6, SEID clients proved to be less disadvantaged in these respects than many other groups. Thus, their claims had low priority, leaving them at the end of the queue for limited support service funds. Not all the clients who needed support services received them. Under the Minnesota JOBS program (implemented in July 1989), participation in SEID fulfills participation requirements. This opens up a new source of funding for the program.

- **Michigan.** Throughout business training, SEID enrollees have been eligible for child care and transportation services through MOST, the Michigan welfare employment program. Participation in SEID fulfills JOBS participation requirements.

3. **Reasons for this pattern of funding**. Originally, SEID planners at the national and state levels regarded JTPA as a source of training and support services. As the previous listing of funders indicated, JTPA did not turn out to be the primary funder in most states. There are several reasons for this, including:

- **JTPA performance standards.** In some of the states and local sites, SEID did not fit within JTPA because of JTPA's emphasis on placement in a regular job with relatively good wages. Under Title IIA of JTPA, the performance of local programs is assessed using standards emphasizing post-program success (such as job placement, wage at placement, achievement of a major level of education, and demonstration of specific job-related competencies) and low program costs. Self-employment, with its more flexible concept of employment and relatively low wages (at least initially), did not fit well within this structure.

- **Lack of geographic overlap.** In addition, the service areas of local JTPA programs often did not overlap with the intended areas for SEID operation. Iowa originally anticipated linking up with JTPA by awarding program operator contracts to the local SDAs. However, the catchment areas carved out for the two Iowa sites cross-cut several SDAs, in order to concentrate on communities with high welfare caseloads and a lack of other training opportunities. This

[12]Child care is reimbursed on a sliding scale, and transportation is reimbursed at a rate of $.25 a mile (this corresponds to the transportation deduction allowed to self-employed individuals by the Internal Revenue Service). SEID staff must request the support service payments from the Department of Social Services on the client's behalf.

made implementation of SEID more complicated and less attractive to individual SDAs. In the end, none chose to bid.[13]

In Mississippi, the one state with JTPA as a major funder, the participating local sites were originally located in the Balance of State SDA. It is often the case that these "balance of state" SDAs, which serve areas not covered by metropolitan SDAs, are more strongly influenced by state officials. Given the governor's office's strong interest in SEID in Mississippi, this structure of JTPA may have facilitated access to more of the program's funds.

As a result of these factors, direct appropriations or allocations of other funds became the major source of program operating resources, while welfare employment programs (under WIN or its successor, JOBS) became the source of support services in most states.

II. The State Waivers

In order to sponsor SEID projects, participating states applied for waivers of several normal AFDC regulations from the federal government's Office of Family Assistance (OFA) in the Family Support Administration of HHS. These waivers permitted states sponsoring the demonstration to exempt SEID business operators from AFDC regulations that might discourage welfare recipients from opening their own businesses. Waiver packages differed somewhat from state to state, as indicated in Table 2.2. This section summarizes the types of waivers states received from the federal agency and discusses important ways in which their provisions affected the design of the state programs.

A. The Provisions of the Waivers

AFDC is a "means-tested" program: That is, its benefits are available only to families with income and assets falling below certain limits.[14] For those eligible for AFDC, the amount of the grant they receive is typically reduced by the amount of their income, less specified allowances for work expenses.

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[13]In other situations, plans for relying on JTPA fell through for particular reasons. In Michigan, state officials expected that SEID would indirectly access JTPA funds by using local SBA centers (which are funded in part through JTPA) to provide training and technical assistance to SEID clients. However, this relationship did not materialize in the time period covered by this report because another agency was chosen initially as the local service provider.

[14]Although the states have great discretion in setting the permitted level of income, federal regulations specify many aspects of how income and assets must be defined.

TABLE 2.2

SEID WAIVERS

AFDC Regulations	Waiver Provisions	State Variations
Unemployed-Parent (UP) Program Two-parent families in which the principal wage earner is unemployed are eligible for AFDC only if the principal wage earner works less than 100 hours per month.	A limited number of program participants who are principal wage earners in two-parent families may be self-employed for more than 100 hours per month and still retain AFDC eligibility during the waiver period.	Iowa: limited to 30 UP recipients over 4 years. Minnesota: limited to 10 UP recipients per year. Mississippi: not applicable (state has no UP program). Michigan: limited to 10 UP recipients over 4 years.
Statewide Benefits All services and benefits must be available through a system of local offices on a statewide basis.	This program will operate initially as a demonstration project in selected counties of the state.	Iowa: limited to 12 counties. Minnesota: limited to 8 counties. Mississippi: limited to 7 counties. Michigan: limited to 1 county.
Resources ***Non-Homestead Real Property*** -- the net market value of any non-homestead property shall be considered a resource and counted toward the resource limitation.	The net market value of any non-homestead property used for the self-employment enterprise shall not be considered a resource.	Minnesota: waiver not requested.
Vehicles -- an equity value not to exceed a value of $1,500 in 1 motor vehicle is exempt.	The entire equity value of any licensed vehicle is excluded only if the vehicle is used primarily for income-producing purposes. "Primarily" shall be defined as being used over 50 percent of the time for income-producing purposes. Participants will be required to document their mileage.	Minnesota: any vehicle used *at all* for business purposes is excluded, even if the vehicle is not used *primarily* for business purposes.
$1,000 Asset Test -- the amount of real and personal property shall not be in excess of $1,000 equity value per household.	Countable *personal* assets shall not be in excess of $1,000 equity value per household. The participant shall be allowed to maintain a business bank account that shall be used exclusively for business.	Iowa, Mississippi: bank account shall not exceed $5,000 as of the first day of each month. Michigan: bank account shall not exceed $10,000 as of the first day of each month. Minnesota: bank account shall not exceed $3,000 net value (subject to provisions of the unencumbered cash reserve, discussed below) as of the first day of each month.

TABLE 2.2 (continued)

AFDC Regulations	Waiver Provisions	State Variations
Business Expenses ***Capital Equipment*** -- the purchase of capital assets or durable goods is not allowed as a business-expense deduction.	The purchase of capital assets or durable goods is allowed as a business-expense deduction.	Iowa: deduction limited to $7,500 (sum total of expenditures on capital equipment plus loan payments). Minnesota: deduction limited to $3,000. Mississippi: deduction limited to $5,000. Michigan: deduction limited to $10,000.
Loan Payments -- only the interest payments on a business or installment loan may be claimed as a business deduction.	The total amount of payment, both principal and interest, on a business loan shall be an allowable business expense.	No variations.
Unencumbered Cash Reserve -- with respect to self-employment, "earned income" means the net profit from a business enterprise (gross receipts less allowable business expenses). After allowable work deductions and disregards, the net available income is subtracted from the appropriate family allowance to determine the grant amount.	Payments into an "unencumbered cash reserve" fund will be allowed as a business expense in any month in which the total amount of the fund (business checking or savings account) does not exceed $3,000.[a]	Minnesota: waiver granted. Iowa,[b] Mississippi, Michigan: waiver not requested.
Gross-Income Test Under the gross-income test, the assistance unit is not eligible for aid in any month in which the unit's income exceeds 185 percent of the state's need standard without application of disregards. For self-employed recipients, the earned income is calculated as the net profit (receipts minus expenses).	A limited amount of annual net profit from the self-employment enterprise shall not be counted in the gross-income test.	Iowa: first $15,000 of business income not counted. Minnesota: waiver not requested. Mississippi: waiver denied. Michigan: waiver denied.

SOURCES: State waiver applications and information from state SEID liaisons.

NOTES: [a]Unencumbered cash reserve is calculated by subtracting the following amounts from the total business account balance: principal balance amount of any unpaid business loans; outstanding checks; money held in reserve for sales tax, employee withholding taxes, and other employee expenditures paid at least annually.
[b]Iowa requested this waiver in the second year of the demonstration. It was granted at the end of 1990.

AFDC regulations already have a standard set of rules for dealing with the assets and income of self-employed welfare recipients; these were changed for SEID business operators by means of waivers. States' waiver packages varied depending on how they already interpreted standard AFDC regulations and on the technical provisions each state made for enabling SEID business operators to accumulate and reinvest profits.

Most importantly, SEID waivers applied to the following provisions of AFDC regulations:

1. Determining AFDC eligibility: asset and income limitations. Welfare caseworkers periodically review the client's income and calculate the worth of a client's assets in order to determine whether the client meets the eligibility criteria for AFDC. The SEID waivers raised asset limitations so that clients can retain and use assets for business purposes without this affecting their eligibility for AFDC. Where necessary, the waivers expanded the definition of business (as opposed to personal) assets so that property used exclusively for the business would not affect the client's eligibility.

One eligibility criterion the client must meet is the gross-income test. According to federal regulations, the client's monthly earnings and other income must total less than 185 percent of the standard of need set by the state.[15] For self-employed recipients under standard AFDC regulations, "income" means the net profit of that individual's business. As indicated in Table 2.2, one state, Iowa, obtained a waiver of the gross-income test so that a certain portion of the SEID business operator's profits (the first $15,000) are not counted in the gross-income test. Minnesota did not request this waiver, and Mississippi and Michigan were denied it.

Clients must also meet an assets test in order to be eligible for AFDC. Under standard AFDC regulations, the equity value of the client's counted assets must not be more than $1,000 for that individual to be eligible for welfare. Certain assets are excluded from the assets test, even under standard AFDC regulations: the client's home, a car valued under $1,500, and essentials. SEID states obtained waivers of this regulation, which excluded from the asset test the net market value of non-homestead property used for the SEID business (such as retail or manufacturing space) and the entire equity value of any licensed vehicle used primarily for business purposes (such as a delivery van or a catering truck). Finally, while the $1,000 asset limitation remained in force as far as *personal* assets were concerned, SEID business operators were allowed to maintain a business bank account exceeding that amount, provided it was used

[15]Standard of need varies greatly, ranging from $964 in Hawaii to $264 in New Mexico.

exclusively for business purposes. Different states placed different limits on the amount of money the client could keep in a business bank account (see Table 2.2).

2. Calculating the welfare grant level: deduction of business expenses from business income. Under AFDC regulations, the net profits from a business enterprise are typically subtracted from the welfare grant amount.[16] However, the number and kind of business expenses are limited. Under waivers, additional business deductions were allowed SEID clients, enabling them to retain more of their business profits. This was done so clients would not have to use their profits to make up for the living expenses they would – under the usual rules – have lost from their welfare grant. Thus, they could reinvest their profits in their businesses.

Specifically, standard AFDC regulations do not allow self-employed recipients to count the purchase price of capital equipment or durable goods as a business deduction. Under SEID waivers, however, such capital equipment is an allowable business deduction. States varied in the limits they placed upon this deduction (see Table 2.2). Also, standard welfare regulations do not allow the client to count payments on the principal of a business loan as a business deduction – only interest payments can be deducted. However, recipients operating a business under SEID waivers can deduct payments on the principal as well as on the interest of a business loan.

3. Technical provisions for separating business and personal income, and for dealing with the uneven cash flow from SEID businesses. In designing their waivers, states had to develop methods of separating SEID clients' business income from personal income for purposes of grant calculation. In addition, they had to find a way to reconcile the AFDC grant calculation procedures with the irregular nature of the self-employed client's cash flow.

AFDC caseworkers calculate an employed client's grant on a monthly or quarterly basis. Caseworkers project how much the recipient will receive in AFDC aid in the next accounting period by looking at the client's income from the previous accounting period. The assumption is that the client's income will fluctuate only moderately from month to month, and so the amount of AFDC to which a client is entitled will remain roughly the same. However, in the case of self-employed welfare recipients, income fluctuation is very great. In some months, clients may make large outlays of cash without bringing in much profit; in other months, clients might temporarily

[16]In these calculations, net profits equal gross receipts less allowable business expenses. Allowable income disregards and work deductions are subtracted from net profits before this is counted against the welfare grant.

have large amounts of cash from customer receipts, but this money will be needed later to pay creditors and suppliers.

In order to deal with these conditions, SEID states allowed clients to maintain checking or savings accounts to be used exclusively for business purposes. Within state limits (see Table 2.2), clients could accumulate money in the business bank account without affecting the client's welfare grant. This money would later be used to cover business expenses.

B. Effects of Waiver Provisions on Program Design

The waiver provisions approved by OFA affected SEID programs in many ways: by requiring them to set targets for business start-ups, by limiting the participation of recipients from the AFDC-Unemployed Parent program (most of whom are male), and by restricting the protection offered by the waivers to a limited and continuous time period.

1. Business opening goals. OFA required the states to show that federal AFDC expenditures under SEID would not be higher than they would have been in the absence of the demonstration – in other words, that the demonstration would be cost neutral for the federal government. As described above, SEID waivers enable business operators to maintain their AFDC grants at a level above what they would ordinarily receive under standard AFDC regulations governing self-employed welfare recipients. This could raise federal and state expenditures on AFDC in the short run. The states and CFED argued that SEID business operators would eventually end or reduce their dependence upon welfare. These case closures and reductions would create welfare savings in the long run that would cancel out the initial cost of maintaining SEID clients at a higher grant level. OFA required each state to calculate the number of business openings leading to case closures needed to counterbalance increased welfare costs. That number became the state's goal for business start-ups, summarized in Table 2.1. Minnesota originally proposed 300 SEID businesses over four years, but adjusted the projection to 200 when it became apparent that the rate of business starts was lower than expected. Iowa set a goal of 202 businesses. Mississippi and Michigan projected 126 and 100 business openings, respectively, over three years.

State officials in charge of administering the waivers reported concern regarding the cost-neutrality requirements of the waiver, stating that it pressured them to establish unrealistic goals for business starts and numbers of recipients leaving public assistance. WEDCO expressed similar concern, based on the organization's experience in entrepreneurial development. However, from

the federal perspective, if welfare savings are only an important short-term goal, then cost neutrality is necessary to assure that initiatives do not lead to increased spending. Therefore, cost neutrality is a standard requirement imposed on many demonstrations utilizing AFDC waivers, although in some cases – as in SEID – it is not strictly enforced. Over the course of the demonstration, federal officials gradually downplayed the importance of these start-up goals as they came to understand the other issues facing states in this early stage of development of a program model and the small scale of the state programs.

2. Participation of AFDC-U recipients. OFA set a limit on the number of waivers that could be granted to clients receiving AFDC through the Unemployed Parent (AFDC-U) program. This program provides aid to two-parent families if the principal wage earner is unemployed and the family meets the usual income tests for eligibility. From the federal perspective, the limit on AFDC-U cases reflected an emphasis on the goal of welfare savings and a concern about "creaming"; Unemployed Parent cases typically leave the welfare rolls more quickly than regular cases, undercutting chances for welfare savings. Originally, Minnesota was limited to 9 AFDC-U waivers over the four years of the demonstration; the state convinced OFA to raise the limit to 10 per year after the first year of program operation. Iowa was initially limited to 10 waivers over four years, but got the limit raised to 30 in 1990. Michigan was limited to 10 AFDC-U waivers. (See Table 2.2.)

State officials felt that the limit on AFDC-U clients entering self-employment was counterproductive, preventing SEID from recruiting and serving appropriate clients, and preventing these clients from finding the way out of welfare to which they were best suited. However, this may well have reflected their focus on the goals of business start-ups rather than a real expectation that serving AFDC-U cases would lead to welfare savings.

3. Limiting the time period of the waivers. OFA set a time limit of 12 consecutive months on the use of waivers for SEID business operators. This meant that SEID business operators would return to the regular rules for self-employment after a year and might lose their AFDC grant, even though their business was not generating sufficient net income to support them.

WEDCO and Minnesota state officials expressed two concerns. First, the one-year limit seemed unrealistic to state officials based on their knowledge of business development. They were aware that the start-up phase of most businesses lasts longer than a year, and during this early phase it is difficult and sometimes dangerous for the health of the business to pull revenues

out to support the operator. As a result, most clients will not have a sufficient amount of time to establish a business that would enable them to take enough money out of the business to get off welfare. Those with this business development view argued that the waivers should be extended for more than one year.

The requirement of applying the waivers in *consecutive* months also troubled the same officials. They felt that program operators should have the option of invoking the waivers only in the months in which they needed them, even delaying the start of the waiver period until the business made sufficient income to affect the client's grant level. In high-grant states such as Minnesota,[17] the amount of income earned by SEID businesses in their first 12 months is unlikely to be high enough to make the client ineligible for welfare.[18] In 1990, OFA issued a policy clarification approving the practice of delaying waivers until the business produced sufficient income to have an impact on grant levels. However, this raises the problem of how to deal with loans taken at the start of the business. Without a waiver at this initial point of business operations, the loan itself might be counted as a personal asset, depending on how the state chooses to define business and personal assets under standard AFDC regulations. For example, the State of Minnesota counts a loan as an allowed business asset under standard AFDC regulations, so special waivers are unnecessary at this point. On the other hand, the State of Mississippi does not count such loans as an allowable business expense, so clients need special waivers immediately on receipt of a loan in order to protect their eligibility.

From the federal perspective, the limitation to 12 consecutive months was imposed in order to avoid indefinite special treatment for self-employment income in grant calculations, potentially extending clients' stays on welfare, complicating the caseworker's job, and making the program less cost-effective. State and federal differences on the appropriateness of the 12-month limitation reflect a relative emphasis on the realities of business development (on the states' part) versus the realities of welfare caseload dynamics and administrative costs (on the federal government's part).

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[17]Average AFDC grant levels for a family of three in the SEID states were: $394 in Iowa; $532 in Minnesota; $120 in Mississippi; and $462 in Michigan. See the figures reported for October 1988 in U.S. Department of Health and Human Services (1989).

[18]Individuals are eligible for welfare only if their income is less than or equal to 185 percent of the state's standard of need. In states with a relatively high standard of need, a substantial amount of profit might not raise the client's income above 185 percent of their standard of need. Other states set the standard of need much lower. Even minimal profits will raise the client's income above 185 percent of the standard of need in these low-grant states.

III. Summary

To summarize the findings of this chapter, in most SEID states, interest in the program was initiated by actors outside the state welfare departments (including governors' staff, legislators, and local and national advocates) whose objectives were to foster entrepreneurship and increase options for welfare recipients beyond the existing menu of welfare employment options (such as job search, workfare, basic education, and vocational training). State planners made clear at the beginning of the demonstration that they intended to judge the program in part by the number and viability of businesses opened by SEID clients, and by other positive outcomes (such as entry into employment or training) among SEID clients who decide not to open a business.

SEID is distanced from welfare institutions and priorities by its funding structure. The program is funded from sources other than the regular welfare department budget in most states. Nevertheless, once the state governments adopted the program, SEID required and got the cooperation of state welfare departments in administering those aspects of the program related to AFDC eligibility and grant calculations.

In order to operate SEID, state welfare departments obtained waivers from the federal government, which exempted SEID clients from welfare regulations reducing the grant levels and restricting the commercial activity of self-employed welfare recipients, and affecting their eligibility to receive welfare. In important ways, the structure of these waivers affected the design of state programs.

CHAPTER 3

LOCAL PROGRAM OPERATORS

On the local level, SEID requires program operators to combine small business development skills with expertise in providing employment-oriented training and support services to welfare recipients. Finding agencies that can deliver such a mix of services is one of the special challenges of this approach.

This chapter describes the local-level development and administration of SEID. The first section discusses how states selected SEID program operators and the goals and responsibilities of these local service providers. The second section summarizes the implementation experience of the six SEID agencies. The final section provides brief profiles of the local agencies operating SEID, including the background and expertise of program operators, their staffing arrangements, and the linkages with other agencies to deliver services and provide financing for the businesses of their clients.

I. Selecting Local Program Operators in SEID

After establishing a state structure for implementing SEID, identifying sources of funds to finance the service, and receiving a federal waiver of the normal AFDC rules on self-employment, states in the demonstration faced the challenge of delivering the needed services at the local level.

Minnesota was able to draw on an existing local agency – WEDCO – with experience serving low-income women in self-employment training. But more typically, there was a choice of service providers that had experience serving low-income people or business expertise. Even those experienced in entrepreneurial training were new to the challenges of recruiting, training, and assisting businesses for a target population composed entirely of AFDC recipients.

States selected service providers by issuing requests for proposals (RFPs), designed in consultation with CFED, that set forth fairly general program specifications. The proposals themselves provided details on how the bidder would address the challenges of SEID. There were few bidders: Michigan had the most (nine) and Iowa the fewest (one). This suggests the scarcity of agencies with the skills required of SEID program operators and an interest in working with the AFDC population.

Across the four demonstration states, six agencies were selected to operate SEID in seven local sites:

State	*Site*	*Program Operator*
Iowa	Waterloo	Institute for Social and Economic Development (ISED)
	Cedar Rapids	ISED
Minnesota	Minneapolis-St. Paul	Women's Economic Development Corporation (WEDCO)
	Brainerd	Mid-Minnesota Business Concepts
Mississippi	Meridian	Meridian Community College
	Canton	Friends of Children of Mississippi, Inc.
Michigan	Detroit	Highland Park Community College

The two Iowa sites each include both urban and rural areas. One of Minnesota's two sites includes the state's largest metropolitan area, while the other comprises three rural counties in central Minnesota. Both Mississippi sites are primarily rural. Michigan's site is one of the country's major urban centers.

SEID program operators in Iowa, Mississippi, and Michigan were to be funded through cost-reimbursement[1] rather than performance-based contracts. Minnesota wrote performance-based[2] contracts with interim payment points for implementation benchmarks such as recruitment and enrollment goals. The states recognized that the untested nature of the SEID program model made it unlikely that any service provider would accept the risk of payment being conditioned solely on the achievement of goals for clients starting businesses and leaving welfare. In addition, many of the expected service providers could not provide the up-front cash needed to operate until outcome goals were met.

However, the contracts did typically set program implementation benchmarks (such as establishment of advisory councils, initiation of recruitment, and provision of training) and some goals for client outcomes (such as business openings or entry into other employment). Business opening goals for individual program operators were derived from the number of businesses

[1]Cost-reimbursement contracts cover actual costs of program operations up to a maximum and are not tied to specific outcomes.

[2]Under performance-based contracts, payments are tied to the achievement of certain benchmarks by clients.

required to fulfill the revenue neutrality requirements of the state's SEID waivers. In most cases, this meant that the original start-up goals for local programs proved unrealistic.

II. The Implementation Experience of Program Operators

The experience of local program operators indicates that SEID is not easily grafted onto the existing social service or business development infrastructure. The program requires service providers that can combine expertise in welfare employment services with proficiency in small business development.

Table 3.1 summarizes the background and structure of local SEID program operators. Numerous changes occurred in program operator staffing levels and organization over the period covered by this report, and the arrangements summarized in the table reflect staffing as of September 30, 1989. Details on the program models in the sites and client progress through the stages of training are provided in Chapter 4. Later chapters address issues arising in the various phases of client flow through the program.

The experience of the program operators indicates that SEID requires considerable flexibility and commitment, even from the agencies with the special qualifications to deliver the desired mix of services. Even WEDCO, an experienced provider of business development services to low-income women, found it necessary to experiment and struggle to adapt its services to the needs of AFDC recipients.

Among the relative newcomers to entrepreneurial development, the community college programs would seem to be most advantaged potential service providers. Such organizations frequently serve low-income clients, have a broad funding base, are experienced providers of business education, and have strong ties to local communities. However, the community college sites actually had the greatest problems in implementing SEID, perhaps because they underestimated the degree to which they would have to devote attention and resources to the program. Both Meridian and Highland Park tried to run SEID with minimal staff, relying heavily on the staff resources and financial connections of the parent organization. They learned that SEID cannot be easily subsumed into their existing operations, but instead requires intensive focus and effort to develop the full range of services and/or attract an adequate client base.

Surprisingly, among the newcomers to entrepreneurial development, it was the free-standing, comparatively resource-poor agencies that had more success in fully implementing SEID and attracting an adequate number of clients (as succeeding chapters will show). These agencies

TABLE 3.1

SEID PROGRAM OPERATORS

Site	Agency	Prior Experience	In-House Staff	Outside Consultants	Funding Sources and Amounts
Iowa (6 rural and urban counties in the Waterloo area and 6 rural and urban counties in the Cedar Rapids area)	Institute for Social and Economic Development (ISED)	New agency	Project Director (P/T) · administration Associate Director (F/T) · technical assistance · recruitment 2 Trainers (F/T) · introductory workshops · training · technical assistance	N/A	Program Operation state/federal $215,000 (3/3/88-6/30/89) Loan Fund private foundations $57,000
5 urban and suburban counties in the Minneapolis-St. Paul area	Women's Economic Development Corporation (WEDCO)	Has provided entrepreneurial training and support for women since 1983	Director of Special Projects (P/T) · administration · curriculum development Project Manager (F/T) · administration · introductory workshops · training · technical assistance · recruitment SEID Coordinator (F/T) · training · technical assistance · support groups Marketing Trainer (P/T) Finance Trainer (P/T) Other WEDCO specialists as needed	N/A	Program Operation state $133,330 (2/29/88-12/31/89) Loan Fund state $130,000 WEDCO $100,000 total $230,000

(continued)

TABLE 3.1 (continued)

Site	Agency	Prior Experience	In-House Staff	Outside Consultants	Funding Sources and Amounts
3 rural counties in central Minnesota	Mid-Minnesota Business Concepts	CAP agency with economic development experience	Project Director (F/T) · administration · technical assistance · business seminar/ support groups · recruitment Business Development Specialist (F/T) · technical assistance · business seminar/ support groups · recruitment Personal Effectiveness Trainer (F/T) · business seminar/ support groups	2 Brainerd Technical Institute staff · training · technical assistance Business Management Consultant · introductory workshops	Program Operation state $35,192 (3/3/88-3/31/90) Loan Fund state $35,349 CSBG $541,691 total $577,040
6 rural counties in the Meridian, Mississippi, area	Meridian Community College	Business Development Center trains business students and provides technical assistance to local businesses	Project Director (F/T) · administration · recruitment · introductory workshops · training · technical assistance Business Center guest speakers · training	Head Start Consultant · life skills training	Program Operation PIC $101,000 (7/1/88-12/31/89) Loan Fund private $59,500

(continued)

TABLE 3.1 (continued)

Site	Agency	Prior Experience	In-House Staff	Outside Consultants	Funding Sources and Amounts
1 rural county in the Canton, Mississippi, area	Friends of Children of Mississippi, Inc.	Head Start agency; also provides job search assistance and employability development training	Project Director (F/T) · administration · recruitment Head Start Trainer (P/T) · introductory workshops Loan Fund Manager (F/T) · technical assistance · support groups · loan review and approval	Mental Health Department Counselor · support groups 2 Private Consultants · marketing training · finance training	Program Operation PIC $101,000 (10/1/88-12/31/89) Loan Fund private $54,620
Wayne County (Detroit, Michigan)	Highland Park Community College	Economic Development Department trains business students and has linkages to the business community	Project Director (P/T) · administration Trainer (F/T) · introductory workshops · training · recruitment · technical assistance 2 Business Consultants (P/T) · technical assistance	N/A	Program Operation state $200,000 (10/1/88-12/31/89) Loan Fund N/A

SOURCE: Information from SEID program operators and contracts.

viewed SEID as a major undertaking to which they intended to devote a large proportion of their energy and efforts. Their investment in the program was great enough to lead them to respond to the challenges of implementing SEID with the necessary flexibility and commitment. They compensated for limited institutional resources through aggressive networking and/or development of in-house expertise through staffing changes.

The community environment seemed to influence strongly the financing opportunities program operators were able to provide. SEID programs operating in rural or mixed urban and rural areas (both Iowa sites, Mid-Minnesota, Canton, and Meridian) successfully developed cooperative relationships with local bankers. The feasibility of developing positive relationships between SEID and commercial banks in the very different business environment of large urban centers has not been demonstrated. WEDCO continues to make financing available to SEID clients through its in-house program loan fund without involving commercial banks, a policy that originated in response to WEDCO's experience with discrimination against women and AFDC recipients by bankers. In Detroit, Highland Park failed to establish linkages with local banks in the first year of program operation.[3]

III. Profiles of Local Program Operators

To provide a full picture of the diversity, strengths, and challenges facing these organizations, this section presents profiles of each agency and its associated organizations.

A. Iowa: Institute for Social and Economic Development

Iowa selected two sites, each composed of six counties, as the target for the SEID demonstration. These counties included rural areas and the medium-sized cities of Waterloo (in the northern site) and Cedar Rapids (in the southern site). They were chosen for SEID because of their high rates of unemployment and welfare dependence.

When Iowa's Department of Economic Development issued an RFP for a SEID program operator, only one organization responded – the Institute for Social and Economic Development (ISED). Other possible bidders were discouraged by the short deadline for replying to the RFP. In addition, each SEID site cross-cut several SDAs, making the program less attractive to JTPA

[3]Wayne State University is currently working on loan fund development for Detroit's SEID project.

agencies; they were unwilling to devote resources outside their own service areas. ISED was awarded the contract to operate SEID in both sites.

ISED was a recently founded organization with no established record in the area of entrepreneurial development. However, the agency founder and director (a social work professor) has worked with low-income and minority people as a community organizer and social worker. In addition, he had served as a small enterprise development specialist in Africa.

In the first months of operation, ISED evolved away from a social service approach toward a focus on the technical aspects of business operations. Originally the SEID staff included two regional coordinators, whose duties included outreach to the local business community and who had expertise in social services and counseling. Once the advisory boards were established, the regional coordinators left the staff and joined the boards. An associate director with small business experience was hired to administer day-to-day operations and to provide individualized technical assistance to enrollees on their business plans and business operations. Two new trainers were hired, replacing the original trainer, whose background was in economic development but whose business experience was limited. The background of one new trainer included a graduate degree in education, college teaching and administration, and ownership of his own garden center. The second trainer had owned a video store and had worked as a parole officer and social worker.

ISED in-house staff are responsible for recruitment, orientation, introductory workshops, and all business training and technical assistance. Group activities are conducted in space donated by public and nonprofit organizations (such as churches and libraries). The Waterloo and Cedar Rapids sites each maintain an advisory board composed of bankers, businesspeople, and community leaders.

This advisory board has played a major part in ISED's efforts to cultivate relationships with financing sources for its clients' businesses. The Iowa program has been relatively successful in helping clients obtain commercial bank funding, as will be discussed in Chapter 8. Iowa program staff have cultivated relationships with local bankers, seeking them out for a role on program advisory boards. In the associate director's judgment, these connections have smoothed the way for SEID clients seeking loans. For example, three Iowa banks have set up special SEID loan funds (two in the Waterloo region, one in Cedar Rapids). All of these banks have representatives on the SEID advisory boards in their local regions. Local banks ease collateral conditions for SEID clients and give them a break on interest rates (prime plus 1 percent). The associate director attributes the receptiveness of local bankers to self-interest as well as civic-mindedness.

Rural banks are reportedly in need of investment opportunities, and SEID businesses look like relatively good investments, particularly given the program's commitment to providing technical assistance and oversight to SEID business operators.

ISED also has a program loan fund of $57,000: the Self-Employment Fund of Iowa (SEFI). SEFI funds are provided by private contributions from foundations, churches, and businesspeople.[4] This fund is reserved for financing businesses that have not been able to obtain other kinds of loans, such as those needing very small loans or troubled businesses in need of refinancing. However, as will be discussed in Chapter 8, Iowa clients have been successful in finding financing from other sources, and there was no need to dip into program funds until 1990.

Iowa SEID clients also have access to a public loan fund for low-income entrepreneurs operated by the Department of Economic Development (DED): the Self-Employment Loan Program (SELP). SELP makes small loans (no higher than $5,000) at a low rate of interest (5 percent) and the application process is relatively simple. The major disadvantage of this fund is the long delays involved in using it. It takes four to eight weeks for a loan to be approved, and another eight weeks to receive the loan. Also, DED occasionally requires that SEID staff co-manage loans for clients with a poor credit history. This involves co-signing checks and reviewing their financial records. Nevertheless, SELP has proved an important resource for SEID business operators.

B. Metropolitan Minneapolis-St. Paul: WEDCO

State staff selected the Minneapolis-St. Paul metropolitan area as one of the two sites for the Minnesota SEID programs. This metropolitan area has the advantage of a healthy business climate, but it also has the most notable concentrations of urban poverty and welfare dependency in the state. Perhaps most importantly, the Minneapolis-St. Paul metropolitan area is the service area of the Women's Economic Development Corporation, the local agency chosen to operate SEID in this site.[5]

WEDCO is the most prominent American self-employment program, and a strong advocate of entrepreneurship as a route to self-sufficiency. The organization was founded in 1983 to provide training, technical assistance, and loan opportunities for women entrepreneurs. As of

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[4]The fund received contributions of $50,000 from the Mott Foundation and $7,000 from other private sources.

[5]In June 1989, WEDCO merged with CHART, an organization providing career and employment training assistance for women.

1986, WEDCO had provided formal business consultations to approximately 2,000 women and had worked with 400 new or expanding small businesses.

WEDCO's approach to entrepreneurial development provided the basic model for the SEID program design. This model emphasizes both technical training in business skills and the cultivation of personal competence and self-esteem. WEDCO's business development staff is composed of eight women, all of whose qualifications include small business experience. As Table 3.1 indicates, two WEDCO staff worked full-time on SEID. In addition, SEID had access to the services of other WEDCO staff with specialized expertise in finance and marketing.

Prior to the initiation of SEID in 1988, women on welfare participated in WEDCO's mainstream services without special waiver provisions. As of 1986, about 20 percent of WEDCO's clientele were AFDC recipients. Nevertheless, the SEID clientele proved to be quite different from the clients WEDCO had served in the past. A larger than expected percentage of SEID clients are long-term welfare recipients. These clients' relative lack of experience with the business world and low self-esteem make SEID more difficult to operate than WEDCO's mainstream programs.

WEDCO introduced a number of adaptations in recruitment, client selection, and training in the effort to attract more qualified clients and to provide remedial assistance to clients who simply needed more time and experience in order to develop feasible business ideas. These are discussed in more detail in Chapters 5, 6, and 7.

One of WEDCO's primary interests is to provide clients with access to capital. Program financing of client businesses has been an integral piece of the WEDCO model, based upon the program staff's experience with bank discrimination against women entrepreneurs and AFDC recipients. As will be discussed in Chapter 8, WEDCO's SEID clients rely primarily on program loans. WEDCO's SEID loan fund amounted to $230,000.[6] Loans are available to SEID clients at a low interest rate: prime plus 1 percent. A limit of $5,000 applies to all program loans.

The program follows businesslike procedures in making loans, to the point of requiring collateral and carrying out foreclosures when necessary. WEDCO clients applying for program loans make a presentation to the loan committee, which is composed of four to seven outside specialists, including bankers and lawyers. This committee makes the final decision on whether

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[6]This included $100,000 of WEDCO resources (including a $25,000 grant from the Mott Foundation funds) and $130,000 in state funds.

to fund the business idea. Once the loan is made, WEDCO continues close oversight of the investment. WEDCO staff write checks on the loan amount directly to vendors, in payment of invoices presented by the business operator.

C. Central Minnesota: Mid-Minnesota Business Concepts

Minnesota state officials also sought to operate SEID in a rural setting and awarded a contract to serve three rural counties in central Minnesota to Mid-Minnesota Business Concepts, the economic development branch of the Tri-County Community Action Program (TCC). TCC became involved in economic development when the funding drought and conservative political climate of the early 1980s forced this organization, like many CAP (Community Action Program) agencies, to rethink their social service orientation.

Because of the weakness of the local labor market and the low level of local wages, TCC became convinced that traditional job search and employment training programs would not help low-income people escape poverty. Increasingly, economic development and self-employment became a focus of TCC's efforts. Recognizing the concern of county officials with welfare costs, TCC began to focus on public assistance recipients as a potential clientele for its economic development efforts. Thus, when state money for SEID became available, it presented a natural target of opportunity for TCC's economic development branch.

In-house staff with expertise in economic development provide ongoing business seminars and individual technical assistance on business plans, loans, and business operations. They also conduct regular support group meetings for SEID enrollees. Unlike Iowa and WEDCO, Mid-Minnesota draws upon linked agencies and consultants for additional business training expertise. A private management consultant provides introductory workshops for potential enrollees, which constitute a crash course in business operating skills such as marketing, finance, and management. Clients who enroll in the program participate in an entrepreneurship training program developed for SEID by the Small Business Management (SBM) program of the state technical college. The SBM director also provides ongoing technical assistance in bookkeeping to SEID business operators.

Mid-Minnesota's emphasis on networking and interagency coordination is also reflected in the way it uses its $577,040 program loan fund.[7] These funds are used to construct loan packages

[7]This fund is made up of $541,691 of Community Service Block Grant (CSBG) funds and $35,349 from the state.

structured to encourage commitment from other commercial or nonprofit lenders: The program agrees to be last in line for repayment in case of foreclosure. Thus, the program loan constitutes an indication of commitment and good faith on the part of the program operator to other loan officers. The interest rate for program loans is particularly low (prime minus 2 percent), and the ceiling on the amount is high: Loans can go as high as $25,000, and larger loans can be made with the agreement of TCC's board of directors. Mid-Minnesota staff maintain continuing control over the disbursement of program loan funds. A portion of the loan is released for start-up costs, and the balance is placed in an escrow savings account to be drawn upon in accordance with the approved business plan.

Program loans are approved by a four-member loan committee, which includes four members from Mid-Minnesota's parent organization: a banker, an economic development specialist, a county welfare director, and an educational counselor. Mid-Minnesota originally had a loan closing and servicing agreement with a private nonprofit organization, the Central Minnesota Initiative Fund (CMIF). Later in the program's development, the program operator took over full management of the Mid-Minnesota loan fund. CMIF also has its own economic development loan program, and Mid-Minnesota staff have made the most of their connection with this organization by directing SEID loan applicants to this fund. Loans were made at a low interest rate (prime minus 1 percent) and are capped at $5,000.

Mid-Minnesota has cultivated a positive relationship with local commercial banks, which, as will be described in Chapter 8, has helped clients obtain bank support for SEID businesses. The rural bankers of central Minnesota, like Iowa bankers, are in need of investment opportunities. The program operator also points out that in the small rural community served by Mid-Minnesota, bankers are not socially isolated from SEID clients, as they would be in urban sites like WEDCO's Minneapolis-St. Paul. Program operators feel that this predisposes bankers to trust both clients and the program. Finally, the bankers' risk is minimized by the structure of the loan packages (commercial loans are always first in line for repayment in case of foreclosure) and by SEID business operators' receipt of continuing technical assistance from program staff and the SBM program director.

D. Meridian, Mississippi: Meridian Community College

State officials in Mississippi contracted with Meridian Community College (MCC) to operate SEID for a catchment area made up of six rural counties in eastern Mississippi. The college had

extensive experience running education and training programs for low-income Mississippians. JTPA programs, a displaced homemaker program serving welfare recipients, and more than 20 vocational training courses were already offered on campus.

The college proposed to integrate SEID into a business center being established on campus in 1988. Impressive resources were to be consolidated in the business center, including the East Central Manufacturing Assistance Center (providing market research and technical assistance on business opportunities), the East Central Procurement Center (providing procurement counseling and information on bidding opportunities for government contracts), an SBA center, and the Meridian Community College Center for Entrepreneurship (linking emerging entrepreneurs with college resources). Meridian's SEID program was to draw upon the resources of the business center and the services of MCC faculty (which were to be provided without charge).

However, several factors hindered the smooth functioning of this service network. The business center was not fully operational until midway through the program's first year of operation. And although the college generally guaranteed the cooperation of MCC faculty, specific allocation of faculty time and responsibilities was not worked out. While MCC contributed guest speakers, the program director alone carried out the core teaching, technical assistance, and administrative functions of the program. Understaffing particularly crippled the SEID recruitment effort in Meridian.

As will be discussed in Chapter 5, the program attracted a very low enrollment of welfare recipients. Moreover, the burden on the program director increased in the second year of program operations. Meridian had formerly contracted with the Canton program to provide introductory workshops to potential enrollees modeled on the Head Start parental involvement curriculum. When the Head Start instructor left the program in 1989, the Meridian director added these workshops to his teaching load. The progress of clients through Meridian's program has been notably slow, as will be discussed in Chapter 4.

Linkages have worked effectively in Meridian in the establishment of a business program loan fund. In an arrangement brokered by the local private industry council, loan fund money is deposited in interest-bearing accounts in a local bank, and serves as a guarantee for bank loans to SEID clients. Loan money transferred directly to SEID businesses is to come from the bank (at a very low interest rate of prime minus 2 percent), but the amounts are to be fully guaranteed by the program fund, and the loans must be approved by the SEID loan committee. The loan committee is made up of the Meridian college president, the director of the business center, one

business center instructor, the college business director, and the SEID program director. SEID staff must co-sign loans, and clients must sign an agreement to accept continuing technical assistance from the program. The program loan fund totals $59,500.[8] The program director has had notable success in raising money for the program loan fund.

E. Canton, Mississippi: Friends of Children of Mississippi, Inc.

State officials selected Friends of Children of Mississippi, Inc., a Head Start agency, to operate SEID in rural Madison County. Madison County has a high unemployment rate, and a large proportion of the population lives below the poverty level. However, aggressive business development is also taking place in the county, creating opportunities for entrepreneurship that program operators hoped to exploit.

Canton's program operator is a well-established agency whose primary area of expertise is developmental preschool services for the children of low-income families. An emphasis on parental involvement is integral to the Head Start model, and the agency's focus on parents led them to undertake activities, such as job search and employability development training, intended to help the Head Start families achieve economic well-being. SEID was viewed as an opportunity to further pursue the economic improvement strategy.

The agency had specific resources it could draw upon in operating SEID. One was its well-established connections with social service organizations, which could be used to recruit AFDC recipients for the program. Another resource was the Head Start parental involvement curriculum, a training course in money management, stress management, and self-esteem enhancement, which could be adapted to develop clients' personal competence, as in the WEDCO model.

Like the rural Minnesota program, the Canton program combines in-house expertise and outside consultants and linkage agreements to pull together the different pieces of the SEID program. The program director is responsible for recruitment and administration. The introductory workshops for potential enrollees are delivered by a Head Start staff member. A full-time SEID loan manager was hired to provide technical assistance on loan applications and to conduct business-related support groups. Business training and technical assistance are

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[8]This is made up of $37,500 from the Mott Foundation, $10,000 per year for 10 years from a local bank, $10,000 from the Hardin Foundation, and $2,000 (plus $1,000 a year in subsequent years) from a local businessman.

provided by two private contractors with backgrounds in business education and consulting. In addition, SEID has a linkage agreement with the local Department of Mental Health to provide group counseling focusing on assertiveness training and problem-solving for SEID enrollees.

Canton has struggled with a particularly disadvantaged client population, as will be discussed in Chapters 5 and 6. The low literacy rates in the area discourage many potential enrollees from undertaking business training. Even among those who complete training, program operators have found it necessary to transcribe business plans for clients because they lack basic literacy skills.

Canton's loan arrangements, like Meridian's, are based on cooperation with local bankers in a relationship brokered by the same local PIC. Program loan fund money (amounting to $54,620)[9] is deposited in interest-bearing accounts in a local bank and serves as a guarantee for bank loans to SEID clients. A SEID loan committee decides which businesses to finance, and the bank acts on their recommendation (at an interest rate of prime minus 2 percent). A TRW credit check is the bank's only additional requirement. The Canton loan committee is composed of a banker, an accountant, a lawyer, and two entrepreneurs. SEID staff must co-sign loans and checks, and clients must sign an agreement to accept continuing technical assistance from the program.

F. Detroit: Highland Park Community College

Michigan's Department of Social Services targeted Wayne County – and primarily the City of Detroit – for the SEID demonstration. Detroit was selected because the erosion of the city's manufacturing base made economic development a high priority, and because the high rates of AFDC dependence made Detroit an important target for employment activities for welfare recipients.

The contractor selected to operate SEID was Highland Park Community College, an organization experienced in operating entrepreneurial development programs. The college housed a small business center and operated a retraining program for laid-off auto workers (in cooperation with the United Auto Workers). In addition, Highland Park offered fundamental business education courses, such as accounting and management. Finally, Highland Park was seen as a financially stable institution that could draw upon its own resources to assist SEID program operations.

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[9]This fund is made up of $37,500 from the Mott Foundation, with the balance from the Levi Strauss Foundation and the local private industry council.

Highland Park hired a trainer with a strong background in business education and entrepreneurship. She had taught accounting and introduction to business at Highland Park, and served as director of the Accounting Aid Society (which provides accounting services to nonprofit organizations). In addition, the trainer operated her own bookkeeping business and participated in the development of a self-employment training project in Flint, Michigan.

While the Detroit site got off to a strong start recruiting clients (primarily through the efforts of the local Department of Social Services), a number of other factors hindered full implementation of SEID. The program was understaffed from the start. With minimal assistance from the college, the trainer provided business training and technical assistance to 50 enrollees in the first cycle of program operations, while carrying additional responsibilities for recruitment and administration. Two part-time business consultants were hired midway through the first year of the program, by which point enrollment had risen to more than 100 clients. One consultant had experience in real estate, the other had a Master of Science degree in finance and had worked in the small business department of a Detroit community development organization. However, the understaffing problem continued to hinder program operations. Highland Park's capacity to contribute in-kind services to SEID was undercut by staff cutbacks, caused by voters' rejection of an increased millage in property taxes for support of the college.

Client morale was adversely affected by the federal government's delays in the approval of Michigan's waiver application. The benefits of the waivers had been promoted in SEID's recruitment efforts, and when approval was delayed, SEID enrollees worried that they would not have the protection of the waivers by the time they opened their businesses.

The most serious problem facing the program was the failure to establish financing arrangements for SEID businesses. Highland Park had proposed to establish a cooperative relationship with commercial bankers. This strategy looked promising, since local government was strongly encouraging commercial banks to invest in minority, inner-city businesses. However, loan arrangements were never successfully implemented, leaving clients without promised resources to set up businesses at the end of their training.[10]

Dissatisfied with Highland Park's understaffing of the SEID program and failure to establish a loan fund, the Department of Social Services (DSS) began taking corrective action in the midst

[10]As of April 1990, negotiations were again under way to establish a program loan fund. Five Detroit banks were cooperating in the effort.

of the college's first contract year. When the college failed to meet the standards and requirements of the corrective action plans, DSS decided not to renew the Highland Park contract, and the new program ceased operations in December 1989. DSS staff referred Highland Park's SEID clients to Wayne State University's Small Business Development Center for ongoing technical assistance.[11] A new RFP was issued and eight agencies submitted proposals. The contract was awarded to Wayne State University's Small Business Development Center, which began SEID client intake in September 1990.

IV. Summary

SEID requires service providers who can combine expertise in welfare employment services with proficiency in small business development. Such organizations were rare, as indicated by the low rate of response to SEID RFPs and by the mixed results of program implementation. Four agencies were able to recruit welfare recipients in sufficient numbers and to fully implement all the necessary program services. One agency was able to recruit very few welfare recipients, and one agency was unable to provide loan opportunities or adequate technical assistance to enrollees.

The two agencies that did not successfully implement the program would seem to be the most advantaged potential service providers in the demonstration, since they are based in community colleges. In both Meridian and Detroit, however, the program suffered from understaffing when the donations of staff time and resources by the parent organization did not fully materialize. In Detroit, the college's connections with the business community did not facilitate creation of a loan fund as expected. These developments indicate that SEID is not easily subsumed into the existing operations of a resource-rich parent organization without special investment of staff time and administrative attention.

SEID was most successfully implemented by agencies with a mission of economic and social betterment of the poor and for whom the project constituted a major undertaking, to which they devoted a large proportion of their energy and efforts. These were free-standing agencies, which had a strong ideological commitment to the program and did not belong to a resource-rich parent organization (ISED, WEDCO, Mid-Minnesota Business Concepts, and Canton Friends of Children). ISED, Mid-Minnesota, and Canton compensated for limited institutional resources by

[11]Despite DSS efforts, only seven of Highland Park's 111 enrollees contacted Wayne State as of October 1990.

establishing cooperative agreements with other agencies and/or developing in-house expertise through staffing changes. These agencies and WEDCO, the agency most experienced in entrepreneurial development, experimented and adapted their program model in order to meet the needs of SEID's target group.

CHAPTER 4

OVERVIEW OF THE PROGRAM MODEL AND CLIENT FLOW

This chapter provides a broad overview of the nature of the treatment delivered by SEID program operators. It also addresses very basic questions about the flow of clients through the program: How many AFDC recipients enter the program? How many complete each phase of the program? How many opt out of SEID at various points in the sequence of services?

The first two sections depict the different components of the SEID program and describe how the basic model has evolved in the local sites. The next two sections focus on a subsample of SEID enrollees – those who had been enrolled in the program for at least seven months – and document their progress and drop-off rate through the successive phases of the program. Subsequent chapters will analyze individual program components more closely, describing the content, structure, and evolution of particular SEID services and examining clients' experiences in each phase of the program.

I. The Basic SEID Program Model

When organizing the demonstration, the Corporation for Enterprise Development proposed the basics of the SEID model, as depicted in Figure 4.1. The common steps include:

- **Recruitment/orientation.** SEID relies on a broad recruitment effort to bring clients into individualized or group orientations. In these orientations, SEID staff provide AFDC recipients with information about program services and the demands and rewards of self-employment.

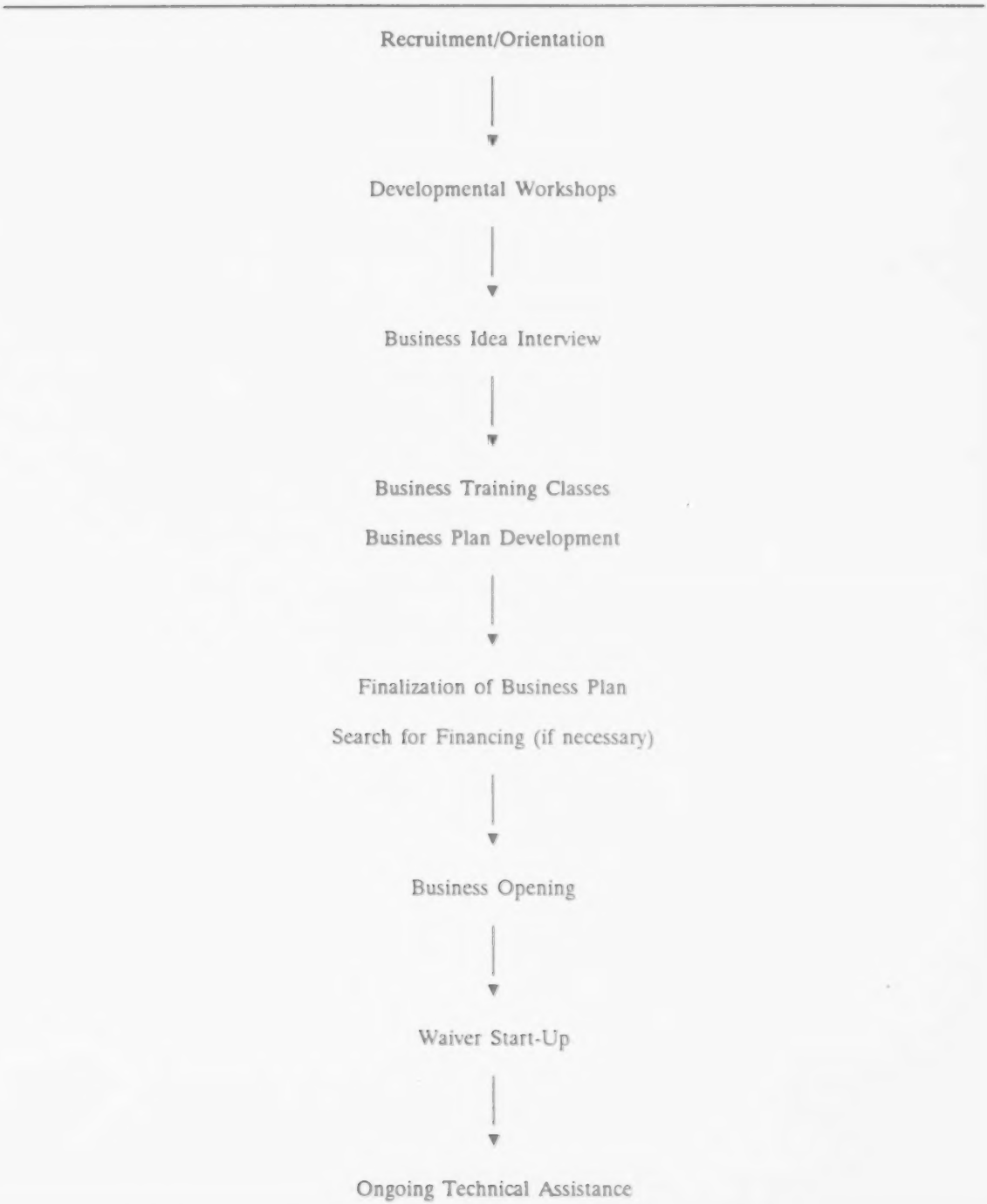
- **Developmental workshops.** In these sessions, potential enrollees participate in self-esteem enhancement activities, self-assessment training, and evaluation of their initial business ideas.

- **Selection of clients who want to enroll in SEID and prepare to open a business.** In one-on-one interviews, clients discuss their business ideas and personal qualifications and circumstances to determine whether they should enroll in the full sequence of SEID services leading to opening a business.

- **Group business training.** Enrollees participate in classes covering subjects such as finance, marketing, and bookkeeping. They learn general business skills and begin to apply them to their own business plans.

FIGURE 4.1

BASIC SEID PROGRAM MODEL



- **Individualized technical assistance on business plan development and loan applications.** During and after completion of group training, clients work one-on-one with staff on business plans and loan applications. In the process of completing the business plan, the client learns and demonstrates how she will open and operate a business that will generate sufficient income to get her off welfare. Clients in need of financing use the business plan information to complete a loan application.

- **Ongoing individualized technical assistance to business operators.** SEID staff assist business operators with bookkeeping and consult on business operations.

- **Business operator support groups.** Business operator support groups provide moral support and opportunities for new entrepreneurs to learn from one another's experiences.

This set of services was modeled on WEDCO's mainstream program serving women entrepreneurs. At the beginning of the demonstration, WEDCO staff prepared a manual for SEID program operators providing an overview of how to set up program services, access financing, and develop the necessary expertise to operate a self-employment project for disadvantaged women. It also included suggestions on how to facilitate the self-selection of potential entrepreneurs for enrollment in the program, in keeping with WEDCO's philosophical commitment to serving all who want to undertake self-employment. A lengthy appendix illustrated how these general principles had been put to work in WEDCO's own SEID program. The manual was intended as a resource rather than a prescription for SEID program operators and, from the beginning of the demonstration, program operators adapted the model to local conditions, their philosophical priorities, and the needs of their clients.

CFED provided training and technical assistance opportunities for program operators. This training was not intended to standardize the SEID treatment across sites or to bring about the implementation of a single program model. The thrust of training opportunities was toward sharing insights about best practices and responding to the program operators' needs. The major training opportunities for SEID program operators were the semi-annual SEID conferences sponsored by CFED, which brought together program operators, state officials, and self-employment experts for discussion and training.

II. A Summary of Local Program Adaptations of the Basic Model

Table 4.1 outlines the sequence and length of services implemented by each of the six SEID program operators.[1] The program model is open-ended because technical assistance is offered indefinitely to clients working on their business plans. However, the sequence of formal group sessions from orientation to completion of business training averages about three months. The SEID program model varies from site to site in terms of the amount of time and effort devoted to various components within the model. In addition, the model has been adapted over time by local service providers as their familiarity with the client population has grown. Subsequent chapters will deal with the evolution of particular components in more detail. The discussion below highlights some of the major adaptations.

Developmental workshops follow orientation in all sites, but the number of sessions devoted to them varies greatly from site to site. Mid-Minnesota increased its developmental workshops from one to two sessions because the consultant operating this component felt that clients needed more of an opportunity to absorb the lessons on finance and business development conveyed in this workshop. WEDCO and ISED both increased developmental workshops on decision-making and self-esteem development because they felt that long-term welfare recipients demonstrated a particular need for these services. In addition, WEDCO created a research and development track for clients who needed more time to develop their business ideas in a group format. Some of these clients would otherwise have been screened out.

One business idea screening interview is scheduled after the developmental workshops in most sites (although clients can and do opt out of the program at any point along the way). This interview takes place at a point approximately two to six weeks after orientation, depending on the site. WEDCO differs from other sites in scheduling screening interviews immediately after orientation. WEDCO, Iowa, and Detroit all adapted their screening practices over the course of the demonstration. These sites shifted away from self-selection of training candidates to more directive program screening. Program staff instituted this shift because they felt that SEID recruitment was attracting clients whose personal circumstances or lack of training or experience made them inappropriate for self-employment at that time (clients can and do return to the program after their circumstances change).

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[1]Subsequent chapters of this report describe the local programs in detail.

TABLE 4.1

LOCAL SEID PROGRAM MODELS

Site	Program Week	Component	Total Number of Sessions	Total Hours
ISED		Orientation		
	1	Developmental workshops · Personal effectiveness training	2	11
	2, 3	· Business idea workshops	2	11
	4	Individual business idea interviews[a]	2	varied
	5-14	Business training	10	55
	15 and beyond	Individual technical assistance on business plan and financing applications	unlimited	varied
	16 and beyond	Support groups	unlimited	varied
WEDCO		Orientation		
		Personal assessment interview[a]		
	1	Developmental workshops · Personal effectiveness training	2	10
	2	· "Making Choices"	2-3	10-15
	3	· Market research	1	5
	3, 4	· "Stepping into Business"	4	20
	4	Individual business idea interviews	1	varied
	5	Introduction to business plans and marketing	1	5
	5-14	Individual business consultations	14[b]	varied
	6-9	Finance classes	4	20
	15 and beyond	Individual technical assistance on business plan and financing applications	unlimited	varied
		Support groups	unlimited	varied

(continued)

TABLE 4.1 (continued)

Site	Program Week	Component	Total Number of Sessions	Total Hours
Mid-Minnesota		Orientation		
	1	Developmental workshops · Adult management training sessions	2	16
	2 or 3	Individual business idea interviews[a]	1	varied
	4-10	Business training	14	49
	4 and beyond	Business seminars/support groups[c]	unlimited	varied
	11 and beyond	Individual technical assistance on business plan and financing applications	unlimited	varied
Detroit		Orientation		
	1, 2	Developmental workshops · Self-assessment, business idea, and business planning workshops	4	24
	3	Individual business idea interviews[a]	1	varied
	4-12	Business training	18	108
	13 and beyond	Individual technical assistance on business plan and financing applications	unlimited	varied
	13 and beyond	Support groups	unlimited	varied
Canton		Orientation		
	1-3	Developmental workshops · Exploring economic self-sufficiency	12	30
	4	Individual business idea interviews[a]	1	varied
	5-11	Business training	16	48
	12-24	Support groups	unlimited	varied
	12 and beyond	Individual technical assistance on business plan and financing applications	unlimited	varied

(continued)

TABLE 4.1 (continued)

Site	Program Week	Component	Total Number of Sessions	Total Hours
Meridian		Orientation		
	1-5	Developmental workshops · "Making Choices"	10	20-25
	6	Individual business idea interviews[a]	1	varied
	7-12	Business training	23	46
	13 and beyond	Support groups	unlimited	varied
	13 and beyond	Individual technical assistance on business plan and financing applications	unlimited	varied

SOURCE: Information from SEID program operators.

NOTES: All sessions are group sessions unless specified as individual.
[a]Point of enrollment.
[b]Fourteen days are reserved for individual business consultations. Enrollees make appointments with consultants on any of those days, as needed.
[c]Support groups meet weekly in program weeks 4 through 10, biweekly thereafter.

Group business training is conducted over a period of approximately one to two months after the screening interview. Program operators adapted business training practices in the course of the demonstration in a number of ways. WEDCO increasingly emphasized individualized technical assistance over group sessions, and consolidated its group business training sequence into five five-hour sessions. ISED developed an additional sequence of management workshops for the business training graduates who they felt had the most potential for success, in the belief that this would make technical assistance on business plans more cost-effective. (These workshops were canceled after several months because of poor attendance.) In Canton, the program operator added more focus on the financial aspects of business training by hiring a second consultant specializing in this field. In addition, Canton introduced training in assertiveness and problem-solving through the local Department of Mental Health.

Individualized technical assistance for SEID clients working on business plans and loan applications has been intensified and expanded in most sites. Canton staff began transcribing business plans for clients lacking basic literacy skills. As mentioned above, WEDCO altered its approach to business training to include more one-on-one – and less group – training. WEDCO viewed this as more appropriate for the kind of individualistic self-starters drawn to self-employment, and thought it would help screen out clients with a passive approach to training. ISED expanded its staff from one to two business trainers in part to expand opportunities for individualized assistance. Detroit added to its staff two part-time consultants specializing in technical assistance on business plan development.

III. Client Participation in Program Components

A. Total Participation in SEID Program Phases[2]

As of September 30, 1989, 794 AFDC recipients had attended a SEID orientation, and a total of 314 recipients had enrolled in the program. The number of enrollees who had completed business training by that date was 199. There were 64 enrollees who had completed business plans and 53 enrollees who had either obtained financing or decided to open a business without loans. A total of 50 clients had opened businesses by that date, and 42 clients had started using the

[2]Appendix Table C.1 presents the number and percentage of clients in each program phase from program start-up through September 30, 1989.

AFDC waivers available under the demonstration. As explained in Chapter 2, waivers exempt SEID clients from certain AFDC regulations that may hinder operation of their businesses. Some sites start the waiver as soon as the client opens a business; others wait until the client receives a certain amount of income. Those business operators who did not begin waivers as of the end of the follow-up period for this report probably applied for waivers at a later date.

B. Participants' Rates of Progress Through SEID Program Phases

Table 4.2 documents the rate of progress of a sample of clients through the successive phases of SEID across all sites. This sample is composed of clients for whom at least seven months of follow-up data are available.[3] This subsample was chosen because seven months represents a reasonable period of time in which a client might be expected to progress through the program. As Chapter 7 will demonstrate, more than 90 percent of SEID enrollees who completed a business plan by September 30, 1990, were able to do so within seven months of enrollment.

- **Enrollment.** Of the AFDC recipients who attended a SEID orientation, 42 percent made it through the selection process to enroll in the program. Some clients left between orientation and enrollment because, over the course of the introductory workshops, they decided that self-employment was not for them. Others were screened out by staff.

- **Start business training.** Almost all enrollees (97 percent) started business training.

- **Complete business training.** More than three-quarters of enrollees (79 percent) completed business training, meaning that they had satisfactory attendance and participation throughout the sequence of classes.

- **Complete a business plan.** Thirty percent of the enrollees in this sample completed a business plan during the follow-up period for this report. This is the point in the program model at which client drop-off is steepest.

- **Obtain financing (or decide not to take out loans).** Most business plan completers go on to obtain financing or decide to open businesses without financing. Together, these groups constitute 25 percent of the enrollees in this sample.

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[3]Detroit is not included in this analysis because client tracking data on entry and completion of program phases was not reported after the first six months of program operation. For an account of business plan completion and business openings in Detroit based on self-reported information and other non-evaluation data sources, see Chapters 7 and 8.

TABLE 4.2

CLIENT FLOW THROUGH PROGRAM PHASES AMONG PARTICIPANTS
WITH SEVEN MONTHS OF FOLLOW-UP, BY SITE

Phase	Waterloo, IA		Cedar Rapids, IA		WEDCO, MN		Mid-Minnesota, MN		Meridian, MS		Canton, MS		Total	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent
Attended orientation	95		76		208		69		10		34		492	
Enrolled	41		38		76		39		3		10		207	
Started training	41	100.0	38	100.0	74	97.4	36	92.3	2	66.7	10	100.0	201	97.1
Completed training	31	75.6	28	73.7	63	82.9	34	87.2	0	0.0	7	70.0	163	78.7
Completed business plan	14	34.1	11	28.9	21	27.6	9	23.1	0	0.0	6	60.0	61	29.5
Obtained financing (or did not need it)	10	24.4	9	23.7	19	25.0	9	23.1	0	0.0	5	50.0	52	25.1
Started business	9	22.0	8	21.1	18[a]	23.7	9	23.1	0	0.0	5	50.0	49	23.7
Started waiver	9	22.0	7	18.4	12	15.8	9	23.1	0	0.0	4[b]	40.0	41	19.8

SOURCES: Calculations from MDRC background, enrollment, and tracking forms, and information from SEID program operators.

NOTES: Detroit is not included because client tracking data on entry and completion of program phases were not reported by the original contractor after the first six months of program operation. For an account of business plan completion and business openings in Detroit based on self-reported information and other non-evaluation data sources, see Chapters 7 and 8.

"Number" and "percent" refer to number and percent of clients who attended orientation and enrolled through February 28, 1989.

[a]Includes businesses started through November 1989.

[b]Includes waivers received on October 1, 1989.

- **Open a business.** Twenty-four percent of enrollees in this sample started businesses. Sites define business start-up differently, as will be explained in Chapter 8. However, in every site, business operators are clients who have completed a business plan and are seeking customers and are prepared to serve them.

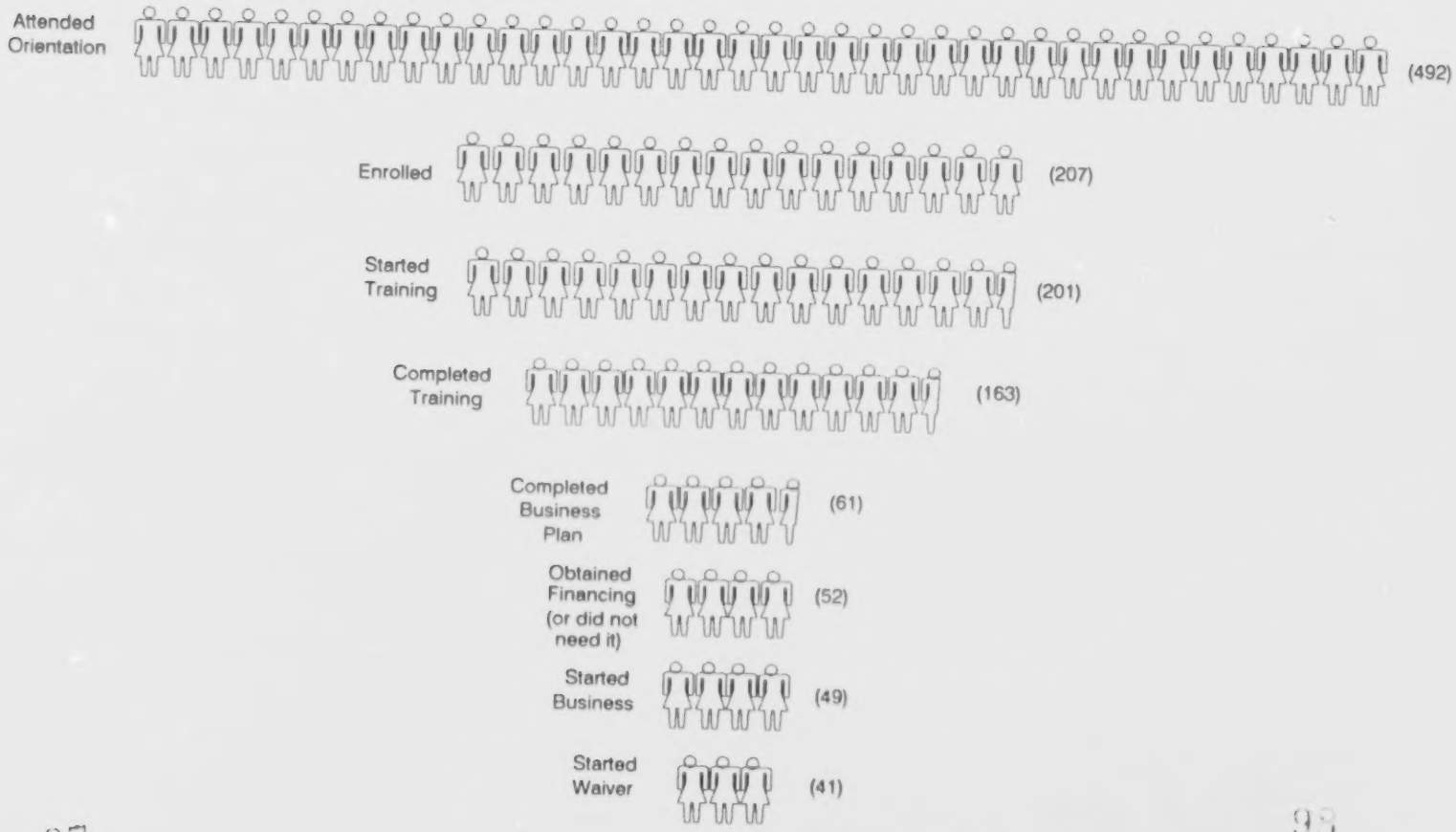
- **Start the AFDC waiver.** Altogether, 20 percent of the enrollees in this sample were using the waivers.

The proportion of program enrollees completing a business plan, opening a business, and operating under an AFDC waiver was quite similar in all sites that fully implemented the program except Canton. This suggests that, while the service providers did modify the basic SEID model to fit local circumstances, these adaptations did not create variation in the basic patterns of client flow through the steps of the program in most of the sites for which data are available.

Figure 4.2 illustrates the pattern of client progress and attrition documented above. It depicts considerable client drop-off between the points of orientation and enrollment. This is consistent with the design of the program and expectations of the planners, who intended to recruit as many potential enrollees as possible and then (through self-selection or staff screening) narrow down applicants to a group of clients appropriate for self-employment. Most enrollees go on to participate in business training and complete the course. However, a much smaller proportion of clients complete the business plan. This phase of the program has proven to be the major bottleneck in program implementation. It is here that it first became apparent that SEID program operators would have difficulty meeting their goals for business openings. Most of the clients who complete a business plan are able to obtain financing (if they need it) and open a business.

The overall picture conveyed in Figure 4.2 is of a program that narrows down the number of applicants to a selective group of clients through screening or self-selection. These clients are relatively successful in moving through the more structured group training phase. However, they lose momentum in the business plan phase, where progress depends on individual initiative and application of the general principles learned in business training to the client's specific business idea. Most clients who make it through the business plan phase go on to open businesses.

FIGURE 4.2
SEID CLIENT FLOW



IV. Other Outcomes Among SEID Enrollees Who Leave the Program and Do Not Open Businesses

Information was collected on the total of 152 SEID enrollees who were reported to have left the program without starting a business at some point between program start-up and September 30, 1989. The most common reason was failure to fulfill program requirements (48 cases) because of poor attendance or failure to complete program assignments. Program operators suggest that personal problems such as illness, child care difficulties, or domestic violence often underlie failure to fulfill program requirements. In 34 cases, clients left to pursue other opportunities such as employment (23 cases) or another education or training program (11 cases). Other common reasons for termination included loss of contact with the client (14 cases) and personal or health problems (19 cases).

As indicated in the client flow analysis presented above, the business plan phase proved the toughest hurdle; the largest number of clients left during this phase. Eighty-seven clients were terminated after starting, but before finishing a business plan. The most common reason was failing to meet program requirements (26 cases), finding a job (14 cases), or losing contact with the program (12 cases). ISED, WEDCO, and Canton terminated 39 to 46 percent of enrollees who had entered the program by September 30, 1989. Mid-Minnesota terminated 30 percent. No clients were terminated in Meridian.

One expectation of SEID planners was that the clients who left the program without starting a business would move into other training programs or employment. Available information indicates that about 22 percent of terminees left the program to pursue such opportunities. Further, some clients may have terminated from SEID for other reasons but eventually benefited from their SEID training or experience by enrolling in another program or starting a job. Thus, the current data is not conclusive. Nevertheless, the available data do not support the claim that SEID helps not only potential entrepreneurs but also enrollees who prove inappropriate for self-employment, by motivating them to enroll in large numbers in other training or employment opportunities.

V. Summary

CFED, working with WEDCO, provided program operators with a basic program model, materials to use in training, and technical assistance on program design and implementation.

However, CFED's approach to the model was not prescriptive, and program operators in most sites adapted the various program components to local conditions and in response to the needs of their clients.

Review of client participation patterns indicates that most SEID clients progress smoothly through the structured group training, but a much smaller proportion are able to develop an individual business plan. Most of those who make it over this hurdle are able to open businesses.

The remaining chapters of this report examine the details of each of these phases of the SEID program model, explaining how program operators succeeded in overcoming many challenges and exploring more fully why others remain a serious barrier to large-scale program success.

CHAPTER 5

SEID RECRUITMENT, INTRODUCTORY WORKSHOPS, AND CLIENT SELECTION

In order to picture the scale on which SEID can be expected to operate, this chapter focuses on the recruitment experiences of the local sites. The first section describes SEID recruitment practices and the record of local programs in attracting potential enrollees.[1] Later sections describe the developmental workshops and the screening and self-selection of potential clients for enrollment in the full sequence of services leading to opening a business.

I. The Recruitment Practices of Sites

A. Methods of Outreach

In their first contact with program staff, potential enrollees provided information on how they first learned about the program. As Table 5.1 indicates, more than half of the potential enrollees said they were recruited by the welfare department. Approximately 24 percent identified the program operator as the source of recruitment. Most of the clients who heard about SEID from the program operator were from Iowa or Detroit. As will be discussed later, these sites had particularly strong recruitment records. Another 19 percent of recruits learned about the program from a friend or relative and about 15 percent heard about SEID through the media.

The welfare department was integral to successful SEID recruitment efforts, either directly (by notifying clients) or by facilitating the recruitment activities of the program operator. Recruitment efforts in Minnesota primarily involved enclosing a letter promoting SEID with AFDC checks; Minnesota targeted letters to clients already reporting self-employment activity. In Iowa, the welfare department sent the letter under separate cover, on program letterhead. Iowa initially targeted self-employed welfare recipients, but later recruited more broadly. Detroit conducted a very broad recruitment effort. Welfare department staff identified appropriate clients, and sent them an invitation (on department stationery) to attend information sessions at Highland Park. Mississippi was not able to target letters to the SEID counties, but the Canton program director

[1] In this chapter, potential enrollees are defined as persons expressing an interest in SEID by attending a group orientation to the program or contacting the program operator on an individual basis.

TABLE 5.1

SOURCE OF RECRUITMENT AND NUMBER OF POTENTIAL SEID ENROLLEES, BY SITE

Source of Recruitment	Waterloo, IA	Cedar Rapids, IA	WEDCO, MN	Mid-Minnesota, MN	Meridian, MS	Canton, MS	Detroit, MI	Total
Notice from program operator	40.8%	47.0%	6.1%	3.0%	0.0%	15.0%	42.3%	24.2%***
Welfare department	46.6	58.8	59.3	51.5	15.0	52.0	33.3	50.8***
JTPA	4.0	1.2	0.9	1.0	0.0	0.0	0.6	1.3[a]
Other community agency	2.3	2.4	5.5	7.1	15.0	6.0	9.5	5.5**
Media	16.7	10.3	10.7	22.2	75.0	23.0	10.1	14.9***
Friend or relative	9.8	9.1	17.7	20.2	55.0	19.0	33.3	18.6***
Businessperson	2.3	1.2	2.0	7.1	0.0	2.0	6.5	3.1[a]
Customer	1.7	0.0	0.6	1.0	0.0	0.0	0.6	0.7[a]
Other	4.0	3.6	14.2	15.2	10.0	5.0	7.1	9.0***
Sample Size	175	166	350	99	22	100	170	1,082

SOURCE: Calculations from MDRC background forms.

NOTES: Data include information received through April 1990.
Columns do not total 100.0 percent because clients were asked to check all sources from which they heard about the program.
A chi-square test was applied to differences among sites. Statistical significance levels are indicated as: * = 10 percent; ** = 5 percent; *** = 1 percent.
[a]A chi-square test was inappropriate because of low expected cell frequencies.

was allowed to hand out flyers in the county welfare office on days when clients were there to pick up Food Stamps, and her presence was announced over the welfare office's public address system. In most sites, welfare caseworkers also directly referred individual clients to SEID. This strategy was reported in both Minnesota sites, Canton, and the Detroit site.

Although most clients cited the welfare department as the initial source of information on SEID, program operators felt that the news media were their most effective recruitment tools. Responses from SEID recruits indicated that relatively few of them (about 15 percent) heard about the program directly through the media. However, these numbers may mask the indirect effect of media. It is possible that friends and relatives of SEID clients may themselves have first heard about the program through the media, and later passed the information on to some of the 19 percent of recruits who reported friends and relatives as a recruitment source. Furthermore, since none of the programs had funds to purchase advertising, all were dependent on free public service announcements or favorable news stories. Except for the widely publicized WEDCO program (see examples below), this type of exposure was quite limited. Thus, media coverage could prove the most effective mechanism when available, but overall a secondary source of recruits.

Strategies for using the news media to increase interest in SEID have differed among sites. WEDCO has had the most media attention. The program was featured on "60 Minutes" and "World News Tonight." A WEDCO staff member and three SEID clients also appeared on a local talk show that aired twice. In Mississippi, public service announcements and press releases have been the most common forms of media publicity. The SEID director from the Canton site has been interviewed on radio and television talk shows. In Iowa, ISED has had extensive newspaper and radio publicity and continues to advertise and seek public relations promotions.

Additional recruitment strategies included outreach through local organizations such as community-based organizations and churches. Program operators in Minnesota, Iowa, and Detroit noted the importance of community-based organizations. WEDCO, in particular, reported increasing its efforts to recruit through presentations at community organizations that work with welfare recipients. Mississippi staff emphasized the use of churches, noting the traditional strength and influence of churches in rural southern communities. Canton and Meridian SEID directors worked with the Ministerial Alliance, and local ministers distributed flyers to their congregations and included SEID recruiting notices in church bulletins or mailings.

JTPA was less active in SEID recruitment than these other agencies, although a cooperative relationship exists between JTPA and SEID in Mississippi and Iowa. For example, in Canton, welfare clients were referred to SEID when they went to the JTPA office (which is co-located with the county welfare office). SEID staff in Iowa and Detroit noted that JTPA was helpful in referring individuals to SEID.

The SEID recruitment message emphasized that this program is an opportunity to become independent and leave welfare. Potential enrollees were also informed about the availability of support services and waivers. In the effort to tap into a client pool appropriate for self-employment, WEDCO experimented briefly with recruitment flyers that emphasized the personal qualities needed for entrepreneurship, and the situational factors that would make it inadvisable for a client to enter SEID. However, this tactic warned off so many clients that the subsequent training cycle was under-enrolled. WEDCO switched back to a more positive message in subsequent recruitment drives.

B. The Number of AFDC Clients Expressing an Interest in SEID

SEID was designed to be a small-scale program because of budgetary considerations and the need for intensive services. However, in order to launch a small number of business, the programs needed to attract a much larger number of interested clients. It was expected that many of the clients who attended orientation and introductory workshops would opt out or be screened out before business training began. Therefore, while most sites did not have recruitment quotas, they all aimed to attract a number of clients far in excess of their business opening goals.

The outreach record of SEID sites is summarized in Table 5.2, which provides the total number of AFDC clients who attended an individualized or group orientation to the SEID program through April 1990. In interpreting these numbers, it is important to remember that some sites had a longer period than others in which to recruit people. The Minnesota sites and one Iowa site started up program operations in the first half of 1988, while the other sites phased in throughout the second half of the year. In addition, it is important to note that the number of AFDC recipients in local SEID catchment areas varied widely from site to site. Urban sites had access to a larger pool of potential AFDC recipients than did rural sites.

Altogether, 1,082 AFDC recipients responded to SEID recruitment efforts by attending a SEID orientation, as of April 1990. WEDCO recruited the largest number of potential enrollees (350). WEDCO came into SEID with numerous recruitment advantages: Importantly, it serves

TABLE 5.2

NUMBER OF ORIENTATION ATTENDERS, START OF RECRUITMENT PERIOD, AND NUMBER OF AFDC CASE HEADS IN CATCHMENT AREA, BY SITE

Site	Orientation Attenders	Start of Recruitment[a]	AFDC Case Heads
Waterloo, IA	175	3/3/88	2,738
Cedar Rapids, IA	166	7/1/88	2,395
WEDCO, MN	350	2/25/88	31,780
Mid-Minnesota, MN	99	2/10/88	1,615
Meridian, MS	22	9/29/88	3,306
Canton, MS	100	9/23/88	1,545
Detroit, MI	170	12/7/88[b]	88,913
Total	1,082		132,292

SOURCES: Calculations from MDRC background forms; AFDC case head data provided by state SEID liaisons.

NOTES: Data include information received through April 1990.
[a]Date of earliest background form.
[b]Highland Park Community College ceased recruitment in November 1989.

an urban area with a larger AFDC population (31,780 case heads) than most other sites. WEDCO also has an established reputation for entrepreneurial programs and – since the program started up earlier than most others – it had more time (26 months as of April 1990) to recruit clients.

Surprisingly, the Iowa service provider (ISED) was able to recruit 341 enrollees across its two sites – almost as many as WEDCO. This occurred despite several disadvantages: The organization had no established reputation; it operates in partially rural counties with a combined AFDC population of only 5,133; and Cedar Rapids recruited clients for only 22 months during the period covered by this report. (Waterloo, like the Minnesota sites, had recruited for about 26 months as of April 1990.) The distinctive feature of Iowa's recruitment practices seem to be that an unusually high proportion of Iowa AFDC recipients (more than 40 percent) identified the SEID program itself as the agency that recruited them. In the Minnesota and Mississippi sites, 0 to 15 percent of potential enrollees said they were recruited by the SEID agency itself (Detroit is discussed below). This suggests that AFDC clients are more likely to attend a SEID orientation if they are contacted by the SEID program as well as the welfare department.

The recruitment record of the Detroit site also suggests the effectiveness of getting AFDC recipients to identify the recruitment message with the SEID agency rather than the welfare department. As in Iowa, more than 40 percent of Detroit's potential enrollees identified the program operator as a source of recruitment. In Detroit, 170 AFDC recipients attended orientation. Since Detroit serves a large AFDC population (88,913), relatively high recruitment was expected. However, these results were achieved in only seven months of full-scale recruitment. (Highland Park Community College slowed down SEID intake after June 1989 and ceased in November 1989 in preparation for the end of its contract).

Rural sites in Mississippi and Minnesota had much lower recruitment numbers, owing in large part to their sparsely populated rural catchment areas, which naturally include fewer eligible AFDC recipients than do urban areas (Mid-Minnesota, 1,615; Canton, 1,545; Meridian, 3,306). Mid-Minnesota and Canton recruited about the same number of clients (99 and 100, respectively). This indicates that Canton attracted potential enrollees more quickly, since that site recruited for only 19 months as of April 1990, while Mid-Minnesota's recruitment began seven months before Canton's. Meridian began recruitment at the same time as Canton, and drew on a catchment area with twice the welfare population of either of the other two rural sites. Nevertheless, Meridian

recruited only 22 AFDC recipients. State officials attribute recruitment problems to the severe understaffing problem at this site.

Rural and urban sites had different records of penetrating the local AFDC caseload. In urban sites, SEID program operators recruited 1 percent or less of the eligible population to attend an orientation. In rural sites (with the exception of Meridian), program operators were able to attract approximately 6 percent of the eligible population. Rural program operators suggest several reasons why SEID might be attractive in rural areas. Job opportunities and alternative education and training programs are difficult to find in depressed rural areas, and thus pose less competition for SEID. The stigma of welfare is very great in small towns, possibly increasing welfare recipients' eagerness to enroll in an employment program. Finally, farming families have a tradition of self-employment, which SEID can draw upon in agricultural areas.

None of the sites have recruited large numbers of AFDC recipients, but SEID was never intended to be a large-scale program. As discussed in Chapter 3, for most of the six program operators, recruitment was not the major bottleneck in reaching program goals for business start-ups. They were able to reach out to sufficient numbers of interested AFDC recipients, although in Meridian, outreach to potential clients did prove more troublesome.

II. Initial Activities

A. Orientation

Orientations are generally the first opportunity potential enrollees have to learn in detail about the services, opportunities, and demands of SEID from program staff.[2] In most sites, the orientation is designed to excite the interest and enthusiasm of potential enrollees, although there is also an emphasis on the hard work and dedication required by self-employment. The two Minnesota sites report changes in orientation over the course of program operation, which reflect a concern with the appropriateness of potential enrollees for self-employment. Mid-Minnesota began to take more of a hard line on the demands of self-employment, and WEDCO began to require that all orientation attendees describe their business idea at orientation, as a first step in the screening process.

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[2]In Mid-Minnesota, an individualized meeting or telephone conversation precedes orientation. In this discussion, SEID staff and potential participants discuss the program and the proposed business idea. In Detroit, SEID orientation is preceded by a general information session.

Orientation also includes an explanation of the SEID waiver, which allows enrollees to open and operate their own businesses without loss or reduction of their AFDC grants. In the Detroit, WEDCO, and Iowa programs, representatives of the welfare department make the presentation explaining the provisions of the waiver. In the Mid-Minnesota and Mississippi programs, SEID staff provide this information.

B. Developmental Workshops

1. Content, structure, and focus of developmental workshops. After the orientation, potential enrollees can participate in developmental workshops offered through SEID. These workshops have a dual purpose: to provide potential enrollees with the information they need to decide if self-employment is really for them, and to help them develop the confidence and decisiveness necessary either to open a business or to pursue a different option such as job training, education, or immediate employment. In most sites, developmental workshops precede enrollment in the program; WEDCO is the exception. WEDCO clients participate in a screening interview immediately after orientation, and enroll in the program at that point prior to starting developmental workshops.

For the most part, as noted earlier, the client will take part in role-playing, discussion, and brainstorming sessions. For example, clients may discuss the traits, skills, and experiences that qualify one to be a good entrepreneur. Or they may work on identifying the barriers that block them from opening a business and brainstorm on ways to overcome them. They also start to test the feasibility of their business ideas. The staff and other participants may ask the client to describe the business she would like to run, answering questions such as "What product or service will you provide?" "Who will buy them?" "How much money will you have to earn in the first year to be independent, and what will you do if your business does not earn that much?" The homework assignment with which each workshop ends is intended to further the client's understanding of what being an entrepreneur is all about, what her own qualifications and weaknesses are as a potential entrepreneur, and the feasibility of her business idea.

Developmental workshops are offered by the in-house business trainer in the ISED and Detroit sites. One SEID staff member specializes in these workshops in WEDCO, assisted in selected sessions by other WEDCO staff. A business and management consultant is responsible for the developmental workshops in Mid-Minnesota. A trainer from the Canton Head Start

program leads developmental workshops in Canton and Meridian. In addition, Meridian draws guest speakers from local social service agencies.

Developmental workshops vary in duration from site to site. Most sites spend two to three weeks (16 to 50 hours) in this component. The introductory phase is briefest in Mid-Minnesota, which has two eight-hour sessions. WEDCO has the most extensive developmental phase, scheduled for 10 five-hour sessions over four weeks.

2. Adapting developmental workshops to the special needs of SEID clients. As their experience with the SEID population increased, program operators in Iowa and WEDCO adapted their developmental workshops to the needs and backgrounds of these particular clients. They found that SEID clients needed to develop self-esteem and decision-making skills, and required an introduction to the challenges and tough realities of the business world.

After their first SEID cycle, WEDCO increased the "personal effectiveness" components of the introductory workshops.[3] In these workshops, clients and staff participate in discussions and role-play, dealing with subjects such as the importance of one's self-concept (what it is and how it influences one's life), the role of thoughts and beliefs (where they come from, how they are perpetuated, and what influence they have), and setting goals for the future (how to change negative goals to positive ones). Clients and staff also practiced relaxation exercises in order to learn how to manage stress, and visualization exercises intended to develop the feeling of self-confidence and success. According to WEDCO, personal effectiveness training "begins the process of understanding what it takes to be a successful entrepreneur and whether the client can commit to determining her own success in business."

In addition, WEDCO found that most SEID clients were not sufficiently experienced in the ways of the business world to be candidates for self-employment. To address this, they further expanded the introductory component by adding the "Stepping into Business" sessions. This workshop series consists of four five-hour days of classroom activity in which staff provide information and training on how to do a successful sales presentation and clients role-play their sales presentations and receive immediate feedback from staff, fellow participants, and business community volunteers. The component provides participants with an opportunity to develop skills in self-presentation and salesmanship.

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[3]WEDCO's personal effectiveness exercises are continued throughout the later stages of group training.

Iowa introduced a two-day personal effectiveness workshop after their first program cycle to address a lack of self-confidence detected in the first group and to foster the growth of positive group dynamics. Like WEDCO, the Iowa personal effectiveness workshops initially included visualization exercises designed to get clients in the habit of feeling and acting like confident, successful business owners. Later in the Iowa program's development, the personal effectiveness training was modified because some of the earlier clients were seen to suffer from overly grand ambitions. Staff felt that the component's emphasis on visualizing aspirations needed to be tempered with more discussion of the feasibility of those aspirations, and therefore revised the training to be more realistic.

III. Screening and Self-Selection of Enrollees

At the start-up of the demonstration, program operators had to decide whether the client alone should make the decision to continue with the program, or whether program staff should screen out clients they found to be inappropriate for self-employment. Sensitive to concerns about "creaming" of the most qualified applicants and aware of the difficulty of immediately identifying likely winners, CFED and WEDCO (in its technical assistance role) encouraged sites to adopt a self-selection model for SEID. However, over time, in some sites program operators shifted toward more screening in order to concentrate scarce staff training and technical assistance time on individuals more likely to succeed. This change represented a major adaptation of the original SEID model.

The Iowa, Mid-Minnesota, Mississippi, and Detroit sites had not previously operated a selective, multi-phase entrepreneurship program such as SEID. Their programs did not have established precedents regarding the use of program-directed screening or client self-selection. From the start, these sites used a combination of screening and self-selection. Over time, the Iowa and Detroit programs became increasingly directive in their screening practices in order to focus their efforts on the clients viewed as most likely to open a business.

WEDCO differed from other sites in that they had a well-established precedent of allowing clients to self-select into or out of their training programs. WEDCO originally intended to carry this idea into SEID. However, as discussed above, WEDCO staff found that SEID clients faced greater barriers than did their other clientele, particularly personal problems and a lack of business exposure. As a result, WEDCO began to take a more directive approach to program screening.

At any point from orientation through business operation, SEID clients can opt out of the program and staff can counsel clients to pursue other options. However, a major decision point for screening and self-selection is the individualized interview. All sites except WEDCO schedule the business idea interview at the end of the developmental workshops. The decision point comes earliest for Mid-Minnesota clients (after two developmental workshops) and the Iowa and Detroit clients (after four developmental workshops). The Mississippi clients spend considerably more time in the program before the screening decision is made. Meridian clients attend 10 sessions, and Canton clients attend 12 developmental workshop sessions prior to the business idea interview.

In all these sites, the interview focuses upon the personal situation and educational skills of the client as well as the quality of the business idea. Participants' personal circumstances and skills levels seem to be the dominant consideration in acceptance decisions in the Iowa and Detroit sites. If the participant is overcommitted to other activities such as job training, has many time-consuming family obligations, or demonstrates a lack basic reading and writing skills, the client could be counseled to forego or delay enrollment in SEID until any crises are resolved, or until she is better prepared to meet the demands of the program. Alternatively, she can be encouraged to try another kind of program. In Canton and Meridian, the interview focuses on the business idea, and staff use that information in making screening decisions. Mid-Minnesota staff discuss the business idea and personal situation with potential enrollees, but no one is screened out of the program by staff. The Mid-Minnesota project director explains that no one wants to dismiss a client from the program against his or her will. However, participants are required to develop a preliminary business plan after this interview, which must be reviewed and approved by SEID staff and the advisory committee before the participant is permitted to enroll in business training. Clients who are unable to produce a written plan, or unwilling to revise their idea, opt out of the program at this point.

WEDCO conducts the screening and self-selection interview immediately after orientation. In this interview, staff discuss whether the client's personal circumstances will allow her to operate a business, whether she has the skills and knowledge to run her business, and whether she really wants the demanding life of an entrepreneur. This assessment also includes an evaluation of the client's initial business idea.

IV. Summary

The SEID recruitment effort attracted 1,082 interested AFDC recipients. In most sites, program operators felt that their recruitment effort brought in the maximum number of AFDC recipients they could adequately serve, given the size of the eligible pool in the community to be served and their agency staffing levels. Most clients reported that they heard about SEID through the welfare department. The best recruitment record belongs to those sites in which potential enrollees named the program operator as well as the welfare department as an important source of recruitment information.

Clients participate in developmental workshops intended to provide the information they need to decide if self-employment is really for them, and to help them develop the confidence and decisiveness necessary either to open a business or to leave the program and pursue a different employment goal. The developmental workshops were expanded in the WEDCO and Iowa sites because staff felt that SEID clients demonstrated a need for self-esteem enhancement and exposure to the business world.

Clients enroll in SEID after an interview involving program staff focusing upon the potential enrollee's business idea and/or her readiness to pursue self-employment. Most program operators rely on a combination of client self-selection and program screening to identify the clients. Mid-Minnesota relies most heavily upon self-selection. WEDCO moved from an emphasis on self-selection to a combination of self-selection and screening.

CHAPTER 6

ENROLLMENT RATE AND ENROLLEE CHARACTERISTICS

As discussed in Chapter 1, there are competing views of what an employment program for welfare recipients should achieve and which segment of the AFDC population should be targeted for services. One view emphasizes the goal of welfare savings and holds that an employment initiative should enroll a disadvantaged population that is unlikely to get off or stay off welfare without an intervention. Another view emphasizes reducing poverty as a program goal. According to this view, clients should be trained for jobs that will help them achieve higher long-term earnings than they otherwise would. For this more advanced training, it might be appropriate to target more job-ready welfare recipients.

The perspective of economic development specialists, which emphasizes job creation, also lessens concerns about "creaming." If the program is seen as part of an economic development strategy, it is an important consideration that more job-ready clients may be more likely to start businesses that will eventually hire others in their community. With all these potential trade-offs in mind, this chapter explores both the extent to which SEID programs enrolled unusually job-ready AFDC recipients and the resources they bring to self-employment.

To determine if there are ways to target program outreach more effectively, the first section compares clients who opt out of SEID prior to enrollment to those who enroll for the full sequence of services. The next section draws a composite profile of SEID enrollees based on the interrelated characteristics typical of this population. Finally, the chapter discusses the characteristics of SEID enrollees and compares them to other AFDC recipients in the nation, in the local SEID catchment areas, and in other voluntary and selective employment programs for welfare recipients. The aim is to assess whether SEID is enrolling clients who are not typical of the AFDC caseload so as to concentrate resources on those most likely to succeed in self-employment.

I. Lessons for Outreach from the Enrollment Patterns in SEID

As described in Chapter 5, AFDC recipients participate in at least an orientation and an individual screening interview prior to enrolling in SEID. In most sites, a series of developmental

workshops also precedes enrollment. Some clients choose to leave the program along the way, some lose contact with it, and some are screened out by SEID staff. As of April 30, 1990, 490 AFDC recipients had enrolled in SEID. This constitutes 45 percent of the clients who attended orientation across all sites. The enrollment rate has been rising steadily over the course of the demonstration as sites refine their outreach techniques so they can target appropriate recipients and programs as they struggle to reach the scale needed to meet their targets for business starts.[1] By site, the enrollment rate ranged from a high of 61 percent in Mid-Minnesota to a low of 23 percent in Canton.

If those who enroll differ in easily observed ways from those who do not, sites could use this information to refine further their outreach techniques. Enrollees were compared to clients who left in the earlier phases of the program to determine whether they differed significantly in terms of measured characteristics. Tables 6.1 and 6.2 indicate that – with some site-specific variation[2] – non-enrollees and enrollees were quite similar in most measured personal characteristics, education levels, employment experience, welfare history, and characteristics related to their business idea.

Some differences do emerge: A higher proportion of enrollees are age 30 or older, prior vocational training was more common among enrollees than among non-enrollees, and more enrollees worked full-time at their longest job. In these respects, enrollees appear to have been somewhat less disadvantaged and better prepared for self-employment. Canton, however, was an exception to this trend. Clients with a high school diploma and prior vocational training were more likely to drop out than enroll in the Canton program.

However, the measured differences between enrollees and dropouts are not large and do not go far in explaining why some clients stay in the program and others opt out. This is born out by statistical analyses comparing the characteristics of enrollees and dropouts.[3] These analyses found that measured characteristics do not predict well who will enroll in SEID (see Appendix B). Clients who had prior vocational training were somewhat more likely to enroll for the full sequence

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[1]In December 1988, the enrollment rate was 39 percent.

[2]Discussions of site-specific differences do not focus on Meridian because the enrollee sample size is too small to permit statistical analysis.

[3]The analysis was done by using ordinary least square regression with enrollment as the dependent variable and client characteristics as independent variables. The R-squared or percent of the variation in the data explained by the estimated equation was very low, supporting the conclusion that easily measured characteristics do not distinguish well between those who enroll and those who do not.

TABLE 6.1

GENERAL CHARACTERISTICS OF SEID NON-ENROLLEES AND ENROLLEES, BY SITE

Characteristic	Waterloo, IA		Cedar Rapids, IA		WEDCO, MN		Mid-Minnesota, MN	
	Non-Enrollees	Enrollees	Non-Enrollees	Enrollees	Non-Enrollees	Enrollees	Non-Enrollees	Enrollees
Gender								
Male	17.1%	13.7%	22.7%	16.9%	6.1%	10.4%	17.9%	33.3%
Female	82.9	86.3	77.3	83.1	93.9	89.6	82.1	66.7
Age at last birthday[a]								
Under twenty	2.7	0.0[b]	2.6	0.0[b]	0.5	0.0[b]	0.0	0.0
Twenties	41.3	31.5	36.8	30.3	36.4	29.3	26.3	23.3
Thirties	38.7	45.2	38.2	48.3	50.8	55.2	47.4	48.3
Forties	16.0	23.3	19.7	20.2	9.2	14.7	26.3	23.3
Fifties	1.3	0.0	2.6	1.1	2.6	0.9	0.0	5.0
Sixties	0.0	0.0	0.0	0.0	0.5	0.0	0.0	0.0
Ethnicity[a]								
White	77.0	71.2[b]	84.0	85.4[b]	57.4	60.0[b]	97.4	95.0[b]
African-American	21.6	26.0	13.3	7.9	30.8	30.4	0.0	0.0
Asian or Pacific Islander	0.0	1.4	0.0	3.4	2.6	2.6	0.0	1.7
Native American	1.4	0.0	0.0	1.1	4.6	1.7	2.6	1.7
Hispanic	0.0	1.4	1.3	1.1	2.6	5.2	0.0	1.7
Other	0.0	0.0	1.3	1.1	2.1	0.0	0.0	0.0
Marital status[a]								
Married, spouse present	17.1	12.7	13.5	11.4[b]	12.8	11.6	15.4	30.0
Married, spouse absent	19.7	19.7	17.6	14.8	14.8	16.1	10.3	10.0
Divorced	40.8	46.5	32.4	55.7	35.7	42.9	64.1	46.7
Widowed	0.0	0.0	1.4	0.0	1.5	0.9	0.0	0.0
Never married	22.4	21.1	35.1	18.2	35.2	28.6	10.3	13.3
High school diploma or GED	90.8	89.0	84.0	92.0	88.7	91.4	89.5	91.7
Ever received vocational training	43.3	57.7	51.4	52.3	56.4	67.9*	58.3	73.3
Ever employed for pay	89.0	93.1	97.3	96.6[b]	91.8	97.3*	100.0	100.0[b]
Longest job was full-time	62.0	70.3	81.1	84.9[b]	65.7	80.4**	85.7	87.7
Receiving AFDC for 2 or more years	69.3	63.9	48.6	57.5	68.7	60.0	69.2	51.7
Sample Size	78	73	76	89	199	116	39	60

(continued)

TABLE 6.1 (continued)

Characteristic	Meridian, MS		Canton, MS		Detroit, MI		Total	
	Non-Enrollees	Enrollees	Non-Enrollees	Enrollees	Non-Enrollees	Enrollees	Non-Enrollees	Enrollees
Gender								
Male	13.3%	0.0%[b]	2.7%	0.0%[b]	5.1%	6.3%	10.5%	13.4%
Female	86.7	100.0	97.3	100.0	94.9	93.7	89.5	86.6
Age at last birthday[a]								
Under twenty	0.0	0.0[b]	1.4	0.0[b]	0.0	0.0	1.1	0.0[b]
Twenties	20.0	14.3	49.3	43.5	16.9	17.1	35.6	26.7
Thirties	40.0	71.4	42.5	39.1	52.5	62.2	45.8	52.6
Forties	26.7	14.3	6.8	13.0	23.7	18.0	14.7	18.8
Fifties	13.3	0.0	0.0	4.3	6.8	2.7	2.6	1.9
Sixties	0.0	0.0	0.0	0.0	0.0	0.0	0.2	0.0
Ethnicity[a]								
White	20.0	0.0[b]	1.4	9.1[b]	3.4	5.5[b]	52.3	55.0
African-American	80.0	100.0	98.6	90.9	86.4	90.0	41.5	39.3
Asian or Pacific Islander	0.0	0.0	0.0	0.0	1.7	0.9	1.1	1.9
Native American	0.0	0.0	0.0	0.0	1.7	0.0	2.3	0.8
Hispanic	0.0	0.0	0.0	0.0	0.0	0.0	1.1	1.9
Other	0.0	0.0	0.0	0.0	6.8	3.6	1.7	1.1
Marital status[a]								
Married, spouse present	14.3	0.0[b]	4.3	8.7[b]	6.8	15.7[b]	12.0	14.7
Married, spouse absent	7.1	0.0	29.0	30.4	20.3	20.4	17.8	17.1
Divorced	35.7	57.1	15.9	21.7	33.9	25.9	35.3	41.6
Widowed	7.1	0.0	0.0	0.0	0.0	1.9	0.9	0.6
Never married	35.7	42.9	50.7	39.1	39.0	36.1	34.0	26.0
High school diploma or GED	86.7	85.7[b]	65.8	43.5*	89.8	90.1	85.3	88.5
Ever received vocational training	66.7	100.0[b]	53.4	43.5	65.5	83.2**	55.0	66.8***
Ever employed for pay	100.0	100.0[b]	78.1	87.0	89.8	99.1[b]	90.9	96.8***
Longest job was full-time	86.7	100.0[b]	62.0	69.6[b]	69.0	79.6*	69.3	80.3***
Receiving AFDC for 2 or more years	84.6	71.4	79.2	71.4	75.9	77.3	68.7	63.9
Sample Size	15	7	73	23	59	111	539	479

SOURCE: Calculations from MDRC background forms.

NOTES: Percents of non-enrollees and enrollees include information from clients who filled out a background form through January 31, 1990.

There are inconsistencies in the data presented on enrollees in Tables 6.1 and 6.3 because these data are drawn from different forms filled out at different points in the client's participation in SEID.

A chi-square test was used to determine whether differences among the distributions of characteristics between non-enrollee and enrollee groups were statistically significant. Statistical significance levels are indicated as: * = 10 percent; ** = 5 percent; *** = 1 percent.

[a]Distributions may not total 100.0 percent because of rounding.

[b]A chi-square test was inappropriate because of low expected cell frequencies.

TABLE 6.2

BUSINESS IDEA-RELATED CHARACTERISTICS OF SEID
NON-ENROLLEES AND ENROLLEES, BY SITE

Characteristic	Waterloo, IA		Cedar Rapids, IA		WEDCO, MN		Mid-Minnesota, MN	
	Non-Enrollees	Enrollees	Non-Enrollees	Enrollees	Non-Enrollees	Enrollees	Non-Enrollees	Enrollees
Specific business idea at program entry	78.1%	94.4%***	76.7%	85.1%	95.4%	100.0%*	92.3%	96.7%[a]
Previous experience in area of business idea	72.7	75.8	83.3	80.8	69.3	78.1	85.7	82.5
Vocational training in area of business idea	30.2	42.4	33.3	33.3	36.3	46.6	45.5	52.6
Sample Size	78	73	76	89	199	116	39	60

Characteristic	Meridian, MS		Canton, MS		Detroit, MI		Total	
	Non-Enrollees	Enrollees	Non-Enrollees	Enrollees	Non-Enrollees	Enrollees	Non-Enrollees	Enrollees
Specific business idea at program entry	93.3%	100.0%[a]	86.3%	100.0%	98.3%	99.1%[a]	89.1%	95.7%***
Previous experience in area of business idea	78.6	100.0[a]	78.3	72.7	83.9	86.2	76.0	80.9*
Vocational training in area of business idea	50.0	57.1[a]	43.5	34.8	49.1	59.6	38.9	47.4**
Sample Size	15	7	73	23	59	111	539	479

SOURCE: Calculations from MDRC background forms.

NOTES: Percents of non-enrollees and enrollees include information from clients who filled out a background form through January 31, 1990.

A chi-square test was applied to differences between non-enrollee and enrollee groups. Statistical significance levels are indicated as: * = 10 percent; ** = 5 percent; *** = 1 percent.

[a]A chi-square test was inappropriate because of low expected cell frequencies.

of services than clients who had not. However, the difference in the likelihood of enrolling – though statistically significant – was slight. Also, it was found that clients who had never married were less likely to enroll than were clients who had been married at some point in their lives, but again the difference was small. These differences are not of a magnitude to influence recruitment targeting practices in the sites.

Program operators report that some dropouts are prevented from enrolling for the full sequence of program activities by situational factors that can arise quickly, such as family crises, difficulty with child care or transportation, and health problems. They also suggest that the key differences between potential entrepreneurs and other people are subjective. According to program operators, the clients who want to become self-employed are particularly independent-minded and strong-willed, not qualities easily identified in initial interviews or readily usable for targeting outreach.

According to program operators, another important group of likely enrollees are those AFDC recipients already running a business. However, most program operators also report that a significant percentage of such recipients do not report their self-employment income to their AFDC caseworkers and do not declare their self-employment because they do not want to be held liable for welfare fraud.[4] Those who are not reporting self-employment income cannot be targeted for outreach efforts, though several sites did actively seek out recipients with reported self-employment income and found this effective.

As noted above, proportionally fewer clients leave the program prior to enrollment in Mid-Minnesota than in any other site. This may be related to the way the program operates. As discussed in Chapter 5, Mid-Minnesota places greater reliance on client self-selection rather than program screening. More clients may enroll because the program is less directive about telling them to leave. In addition, Mid-Minnesota staff individually brief potential enrollees by phone on what the program demands *before* clients ever come to the site. This may serve as a pre-screening mechanism. Also, Mid-Minnesota has a relatively short introductory sequence, so clients have less opportunity to drop out than in other sites. Another explanation that can neither be ruled out nor proven is that the clients initially attracted to the Mid-Minnesota program are particularly strong in terms of the subjective characteristics that motivate clients to pursue self-employment.

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[4]Mid-Minnesota staff report that their clients did not conceal prior or current self-employment, and that concealment of such activity would be extremely difficult in the small towns served by their project.

Program operators in this site say that they specifically ask welfare caseworkers to refer their "troublemakers," clients who chafe under the rules and regulations of the welfare system, because these are the clients most likely to have the independent spirit of the entrepreneurs.

In Canton, on the other hand, a higher percentage of clients opt out or are screened out between orientation and enrollment than in other sites. Among those who leave are some of the more qualified clients, who have high school diplomas or General Educational Development certificates (GEDs) and/or prior vocational training. Specific reasons for Canton's low enrollment rate may be found in a log of client contacts maintained by the program director. According to the log, 16 clients dropped out of the first cohort of recruits. Four non-enrollees took jobs prior to enrollment. It is notable that all these recruits had high school diplomas. This suggests that, given the very low AFDC grant levels in Mississippi, employable clients will take a job rather than make a commitment to a longer-term program that will temporarily require continued dependence on welfare. In addition, because of the relatively low average educational attainment level in Mississippi, clients with a high school diploma or GED may have more employment opportunities in that state than in the others, where higher educational attainment is more common. Therefore, these more educated clients would be more likely to leave welfare for jobs in Mississippi than in the other states. However, the most common reason for dropping out before enrollment in Canton was not entry into employment; it was loss of interest on the client's part, expressed either directly or by a failure to respond to site effort to maintain contact (eight cases). Personal situations – a death in the family (one case) or childbirth (two cases) – prevented enrollment of three clients. One recruit enrolled instead in a vocational rehabilitation program.

Canton's low enrollment rate may also have resulted from the type of clients initially expressing an interest in the program. Judging by the full set of measured recruit characteristics, the clients who attended orientation in Canton were among the most disadvantaged members of the SEID sample (see Appendix D). This suggests that multiple barriers to participation are particularly common among Canton AFDC recipients. In turn, this suggests that while enrollees and non-enrollees look the same by most standard measures, enrollees must be especially strong-willed and determined to become an entrepreneur in view of these multiple barriers.

II. A Composite Profile of a "Typical" SEID Enrollee

Program operators face many choices in structuring their self-employment training, and their response to many issues is strongly influenced by the personal and family characteristics and previous experience of those they are serving. Choices about what to assume clients already know about the world of business, about how much time they can devote to preparing for self-employment, and about their ability to grasp more technical aspects of business training all should be based on where their clients are starting from as they enter the program.

As Table 6.3 indicates, the typical SEID enrollee is a 34-year-old white female who has been divorced.[5] She has resided in her local community for more than five years, suggesting that she may know something about the local market she plans to serve through her business. She is likely to have more than one child, and her youngest is about seven years old, indicating that child care for preschool children is often not an issue, though after-school care may be. She is more employable than most welfare recipients in several respects: She has a high school diploma or GED, prior vocational training, and experience holding a full-time job. However, her wages were low – probably $5.00 an hour or less – and she had to quit the job she had held longest, most likely because of a pregnancy or child care problems or some other barrier to employment. She is in the midst of a spell of welfare receipt, which so far has lasted more than two years. This distinguishes her from most AFDC applicants – who are able to cycle off welfare in two years or less – but suggests that she may be typical of those on the caseload at a point in time.[6]

There is a good chance that the typical SEID enrollee has been self-employed at some point in her life (see Table 6.4). While only one-third of SEID enrollees reported previous self-employment, this number probably underestimates the situation. Most program operators caution

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[5]This is based on the demographic and other characteristics measured on client enrollment forms. Although there are clearly many clients who differ from this "typical" one, presenting these results does suggest what SEID program operators were able to assume about the lives of their clients as they developed their program.

[6]This conclusion rests on research by Bane and Ellwood (1983), which was based on a national sample of AFDC recipients. The distinction between applicants (those who are beginning a spell of public assistance) and recipients (those who are receiving public assistance as of a point in time) is important. Bane and Ellwood conclude that most people who begin a spell of AFDC leave quickly, but that most people who are receiving AFDC at a point in time have been on welfare for a considerable period. Bane and Ellwood illustrate this difference between "flow" into the program and the "stock" of recipients by drawing on the experience of hospitals. Most people who enter a hospital leave quickly, but most of those in a hospital at a point in time are longer-term stayers.

TABLE 6.3

GENERAL CHARACTERISTICS OF SEID ENROLLEES, BY SITE

Characteristic	Waterloo, IA	Cedar Rapids, IA	WEDCO, MN	Mid-Minnesota, MN	Meridian, MS	Canton, MS	Detroit, MI	Total
Gender (%)								
Male	14.3	15.7	10.3	40.0	0.0	4.3	10.8	15.3***
Female	85.7	84.3	89.7	60.0	100.0	95.7	89.2	84.7
Age at last birthday (%)[a]								
Twenties	31.0	29.2	28.4	23.3	14.3	43.5	17.1	26.3[b]
Thirties	46.4	49.4	55.2	46.7	71.4	39.1	60.4	52.2
Forties	22.6	20.2	15.5	25.0	14.3	13.0	19.8	19.6
Fifties	0.0	1.1	0.9	5.0	0.0	4.3	2.7	1.8
Average age (years)	34.0	33.6	33.3	35.7	34.9	32.9	35.5	34.3*
Ethnicity (%)[a]								
White	71.4	85.4	59.5	96.7	0.0	8.7	4.6	55.3[b]
African-American	25.0	9.0	30.2	0.0	100.0	91.3	89.9	38.9
Asian or Pacific Islander	1.2	1.1	2.6	1.7	0.0	0.0	0.9	1.4
Native American	1.2	1.1	1.7	0.0	0.0	0.0	0.9	1.0
Hispanic	1.2	2.2	5.2	1.7	0.0	0.0	0.0	2.0
Other	0.0	1.1	0.9	0.0	0.0	0.0	3.7	1.2
Length of residence in community (%)[a]								
Less than 1 year	7.1	10.1	10.4	8.3	0.0	13.0	4.5	8.2[b]
1 to 2 years	7.1	4.5	13.9	10.0	14.3	4.3	4.5	8.0
2 to 5 years	4.8	14.6	14.8	18.3	14.3	17.4	5.5	11.5
Over 5 years	81.0	70.8	60.9	63.3	71.4	65.2	85.5	72.3
Marital status (%)[a]								
Married, spouse present	11.9	14.6	12.9	31.7	0.0	13.0	14.4	15.5[b]
Married, spouse absent	25.0	12.4	16.4	10.0	14.3	26.1	19.8	17.6
Divorced	40.5	56.2	42.2	46.7	42.9	21.7	25.2	40.2
Widowed	0.0	0.0	0.0	0.0	0.0	0.0	1.8	0.4
Never married	22.6	16.9	28.4	11.7	42.9	39.1	38.7	26.3

(continued)

TABLE 6.3 (continued)

Characteristic	Waterloo, IA	Cedar Rapids, IA	WEDCO, MN	Mid-Minnesota, MN	Meridian, MS	Canton, MS	Detroit, MI	Total
Number of children (%)[a]								
1	29.3	40.4	40.4	23.3	0.0	17.4	25.5	31.3**
2	35.4	25.8	32.5	43.3	28.6	26.1	29.1	32.0
3 or more	35.4	33.7	27.2	33.3	71.4	56.5	45.5	36.7
Age of youngest child (%)[a]								
less than 3	27.7	23.6	37.3	25.0	28.6	34.8	23.	28.0[b]
3 through 5	20.5	22.5	20.6	21.7	28.6	17.4	25.2	22.1
6 through 9	24.1	25.8	24.5	26.7	28.6	17.4	19.8	23.6
10 through 12	15.7	13.5	6.9	15.0	14.3	17.4	8.1	11.6
13 through 15	6.0	9.0	6.9	5.0	0.0	13.0	14.4	8.8
16 through 18	6.0	5.6	3.9	6.7	0.0	0.0	9.0	5.9
Average age of youngest child (years)	6.9	7.2	5.8	7.0	5.9	6.5	7.7	6.9
High school diploma or GED (%)	89.3	92.0	91.4	91.7	85.7	43.5	90.1	88.5***
Ever received vocational training (%)	52.4	37.1	53.0	68.3	57.1	26.1	79.3	56.7***
Ever employed for pay (%)	97.6	97.8	97.4	100.0	100.0	95.7	98.2	98.0[b]
Highest hourly wage (%)[a]								
$3.35 and under	32.9	23.3	11.7	21.4	33.3	36.4	14.3	21.0[b]
$3.36 to $4.00	19.0	15.1	12.8	14.3	50.0	4.5	17.1	15.6
$4.01 to $5.00	11.4	27.9	14.9	26.8	16.7	27.3	18.1	19.6
$5.01 to $6.00	10.1	8.1	16.0	5.4	0.0	18.2	17.1	12.3
$6.01 to $7.00	3.8	4.7	23.4	10.7	0.0	9.1	10.5	10.7
$7.01 to $8.00	8.9	8.1	5.3	7.1	0.0	4.5	6.7	6.9
$8.01 and higher	13.9	12.8	16.0	14.3	0.0	0.0	16.2	13.8
Longest job was full-time (%)	74.2	87.1	82.8	87.7	100.0	80.0	82.7	83.1

(continued)

TABLE 6.3 (continued)

Characteristic	Waterloo, IA	Cedar Rapids, IA	WEDCO, MN	Mid-Minnesota, MN	Meridian, MS	Canton, MS	Detroit, MI	Total
Reason for leaving longest job (%)[a]								
Laid off	29.1	20.0	22.5	21.7	28.6	45.5	36.8	27.5[b]
Fired	7.6	8.2	8.8	1.7	0.0	4.5	8.5	7.2
Quit	55.7	69.4	63.7	73.3	71.4	45.5	51.9	61.2
Other	7.6	2.4	4.9	3.3	0.0	4.5	2.8	4.1
Length of continuous AFDC receipt (%)								
2 years or less	36.9	35.2	45.5	55.9	57.1	40.9	26.1	38.9***
More than 2 years	63.1	64.8	54.5	44.1	42.9	59.1	73.9	61.1
Sample Size	84	89	116	60	7	23	111	490

SOURCE: Calculations from MDRC background and enrollment forms.

NOTES: Data include information received through April 1990.

There are inconsistencies in the data presented on enrollees in Tables 6.1 and 6.3 because these data are drawn from different forms filled out at different points in the client's participation in SEID.

A chi-square test was used to determine whether differences among the distributions of characteristics between the sites were statistically significant. Statistical significance levels are indicated as: * = 10 percent; ** = 5 percent; *** = 1 percent.

[a]Distributions may not total 100.0 percent because of rounding.

[b]A chi-square test was inappropriate because of low expected cell frequencies.

TABLE 6.4

SELF-EMPLOYMENT-RELATED CHARACTERISTICS OF SEID ENROLLEES, BY SITE

Characteristic	Waterloo, IA	Cedar Rapids, IA	WEDCO, MN	Mid-Minnesota, MN	Meridian, MS	Canton, MS	Detroit, MI	Total
Ever self-employed	34.5%	29.2%	26.7%	46.7%	0.0%	13.0%	44.1%	33.9%***
Reasons for interest in self-employment[a]								
To be the boss	57.1	56.2	55.2	41.7	0.0	47.8	66.7	55.5***
To be independent	91.7	91.0	76.7	91.7	85.7	95.7	92.8	88.4[b]
Irregular hours	22.6	29.2	30.2	10.0	0.0	4.3	26.1	23.7***
To work at home	44.0	40.4	35.3	20.0	0.0	21.7	23.4	32.0***
Few opportunities in field of interest	20.2	31.5	13.8	13.3	0.0	13.0	20.7	19.4**
Run family business	45.2	49.4	37.1	40.0	28.6	26.1	64.9	46.7***
Financial rewards	86.9	87.6	75.9	78.3	71.4	52.2	84.7	81.0***
Balance family and work	60.7	58.4	52.6	48.3	14.3	26.1	41.4	50.2***
Community service	44.0	52.8	36.2	35.0	42.9	43.5	66.7	47.8***
To get off AFDC	95.2	96.6	75.9	83.3	100.0	95.7	87.4	87.8[b]
Other	25.0	20.2	20.7	45.0	28.6	8.7	20.7	23.9***
Skills or resources for self-employment[a]								
Managed other business	37.3	37.1	37.9	31.7	0.0	26.1	47.7	38.0*
Raised money	60.2	53.9	51.7	41.7	71.4	56.5	60.4	54.8
Kept financial records	61.4	53.9	47.4	55.0	0.0	34.8	48.6	50.9**
Sold products or services	84.3	85.4	71.6	80.0	28.6	69.6	82.0	78.9***
Wrote a report	38.6	44.9	31.9	33.3	14.3	21.7	35.1	35.6
Did own taxes	45.8	57.3	54.3	65.0	28.6	17.4	39.6	49.3**
Applied for a loan	74.7	80.9	60.3	86.7	100.0	82.6	64.9	72.4***
Gave an oral presentation	45.8	61.8	52.6	48.3	14.3	26.1	48.6	49.9**
Sample Size	84	89	116	60	7	23	111	490

SOURCE: Calculations from MDRC enrollment forms.

NOTES: Data include information received through April 1990.

A chi-square test was applied to differences among sites. Statistical significance levels are indicated as: * = 10 percent; ** = 5 percent; *** = 1 percent.

[a]Distributions will not total 100.0 percent because clients could check more than one response.

[b]A chi-square test was inappropriate because of low expected cell frequencies.

that some enrollees are operating a business when they come into the program, but do not admit this because they do not want to report their income to their AFDC caseworkers. However, program operators also point out that reports of self-employment do not necessarily refer to the operation of a small business, but may refer instead to more marginal, intermittent income-producing activity such as occasional babysitting.

The typical SEID enrollee reports that she is motivated to pursue self-employment because of a desire to make a clean break from welfare and poverty, rather than the desire to combine work and welfare under conditions that allow her to build her schedule around home and children. As indicated in Table 6.4, she is more likely to report that she is attracted by the prospect of independence, getting off AFDC, and financial rewards. Domestic considerations such as a desire to balance work and family, work at home, and work irregular hours are less typically among her reasons for pursuing self-employment.

The typical enrollee has certain skills and resources that she sees as qualifying her for self-employment. As shown in Table 6.4, these include a background in sales and previous experience in applying for loans. She may also have experience in raising money and in bookkeeping.

III. How SEID Enrollees Compare to Other AFDC Recipients

In order to assess the extent to which SEID program operators attracted clients who were substantially more job-ready than the pool of AFDC recipients, this section compares the SEID enrollee sample to the general AFDC population of the SEID counties (see Table 6.5) when such data are available. This section also presents national data, when available, to illustrate how SEID enrollees compare to AFDC recipients elsewhere (U.S. Department of Health and Human Services, 1988). At the end of the section, the SEID sample is compared to welfare recipients from other recent selective-voluntary welfare employment programs, showing that the experience of SEID is not unique. Other selective-voluntary programs have also tended to attract clients resembling the profile of SEID enrollees.

- **Like most adult AFDC recipients nationally, most SEID enrollees are women.**

However, the proportion of men is slightly higher in SEID (15 percent, as shown in Table 6.3) than in the national population of AFDC single-parent families (11 percent). Men are slightly overrepresented in SEID because federal welfare authorities allowed a limited number of waivers

TABLE 6.5

CHARACTERISTICS OF SEID ENROLLEES AND THE GENERAL AFDC POPULATION, BY SITE

Characteristic	Waterloo, IA		Cedar Rapids, IA		WEDCO, MN		Mid-Minnesota, MN		Meridian, MS		Canton, MS		Detroit, MI[a]	
	SEID	General AFDC	SEID	General AFDC	SEID	General AFDC	SEID	General AFDC	SEID	General AFDC	SEID	General AFDC	SEID	General AFDC
Age at last birthday[b,c]														
Under twenty	0.0%	8.3%	0.0%	7.8%	0.0%	6.3%	0.0%	5.0%	0.0%	N/A%	0.0%	N/A%	0.0%	14.9%
Twenties	31.0	49.5	29.2	47.8	28.4	48.2	23.3	44.4	14.3	N/A	43.5	N/A	17.1	40.6
Thirties	46.4	32.9	49.4	34.3	55.2	33.4	46.7	35.0	71.4	N/A	39.1	N/A	60.4	32.8
Forties	22.6	7.3	20.2	8.4	15.5	9.3	25.0	13.2	14.3	N/A	13.0	N/A	19.8	9.0
Fifties	0.0	2.0	1.1	1.6	0.9	2.3	5.0	2.4	0.0	N/A	4.3	N/A	2.7	2.4
Sixties	0.0	0.1	0.0	0.0	0.0	0.4	0.0	0.1	0.0	N/A	0.0	N/A	0.0	0.3
Ethnicity[b]														
White	71.4	74.6	85.4	90.8	59.5	53.9	96.7	97.8	0.0	12.2	8.7	3.4	4.6	20.6
African-American	25.0	24.7	9.0	6.8	30.2	25.5	0.0	0.3	100.0	83.9	91.3	96.5	89.9	77.5
Asian or Pacific Islander	1.2	0.1	1.1	0.4	2.6	12.3	1.7	0.2	0.0	N/A	0.0	N/A	0.9	N/A
Native American	1.2	0.1	1.1	0.2	1.7	6.1	0.0	1.4	0.0	3.8	0.0	0.0[d]	0.9	0.2
Hispanic	1.2	0.3	2.2	1.0	5.2	2.2	1.7	0.3	0.0	0.1	0.0	0.1	0.0	1.5
Other	0.0	0.1	1.1	0.8	0.9	N/A	0.0	N/A	0.0	N/A	0.0	N/A	3.7	0.3
Marital status[b]														
Married, spouse present	11.9	20.5	14.6	24.5	12.9	20.0	31.7	33.8	0.0	9.4	13.0	7.3	14.4	N/A
Married, spouse absent	25.0	13.0	12.4	10.8	16.4	16.7	10.0	19.0	14.3	20.3	26.1	19.0	19.8	N/A
Divorced	40.5	15.3	56.2	14.2	42.2	12.8	46.7	19.5	42.9	14.3	21.7	10.9	25.2	N/A
Widowed	0.0	0.2	0.0	0.2	0.0	1.4	0.0	0.7	0.0	4.2	0.0	3.5	1.8	N/A
Never married	22.6	51.0	16.9	50.3	28.4	49.1	11.7	27.0	42.9	51.8	39.1	59.3	38.7	N/A

(continued)

TABLE 6.5 (continued)

Characteristic	Waterloo, IA SEID	Waterloo, IA General AFDC	Cedar Rapids, IA SEID	Cedar Rapids, IA General AFDC	WEDCO, MN SEID	WEDCO, MN General AFDC	Mid-Minnesota, MN SEID	Mid-Minnesota, MN General AFDC	Meridian, MS SEID	Meridian, MS General AFDC	Canton, MS SEID	Canton, MS General AFDC	Detroit, MI[a] SEID	Detroit, MI[a] General AFDC
High school diploma or GED	89.3%	67.6%[e]	92.0%	69.8%[e,f]	91.4%	57.2%[g]	91.7%	70.3%[g]	85.7%	N/A%	43.5%	N/A%	90.1%	N/A%
Receiving AFDC for more than 2 years[h]	63.1	12.2	64.8	10.9	54.5	43.9	44.1	32.9	42.9	64.6	59.1	66.4	73.9	28.8
Sample Size	84	2,738	89	2,395	116	31,780	60	1,615	7	3,306	23	1,545	111	88,913

SOURCES: Calculations from MDRC background and enrollment forms; general AFDC data provided by state SEID liaisons.

NOTES: SEID data include information received through April 1990.

[a]In Detroit, the sample size of the AFDC population varies for different characteristics. The sample size for age is 84,416; the sample size for ethnicity is 84,466; and the sample size for people receiving AFDC for three years or more is 88,913.

[b]Distributions may not total 100.0 percent because of rounding.

[c]Age categories in Detroit are defined as less than or equal to 21, 22 to 30, 31 to 40, 41 to 50, 51 to 60, and over 60.

[d]Data may be missing from state records.

[e]Sample includes a "special education" category, which is treated as being below the high school diploma level, although some school districts award diplomas to special education students.

[f]For this characteristic, 27.4 percent of the sample is missing.

[g]Sample includes all clients with 12 years or more of education.

[h]Except for Michigan, state general AFDC data include some clients who have been on AFDC exactly two years. For Detroit, data were available only for those who have been on AFDC three years or more.

to be issued to recipients in the AFDC-U (Unemployed Parent) program, which serves two-parent families. Several program operators reported that they saw AFDC-U recipients as attractive clients, but most curtailed recruitment of them because of the waiver limitations: They did not want to enroll people into the program who would not be eligible for waivers. However, Mid-Minnesota recruited a relatively high proportion of male enrollees, reasoning that not all their enrollees would continue with the program to the point of opening a business and needing a waiver. In addition, Mid-Minnesota staff report that the mostly male AFDC-U population makes up a high proportion of the local welfare caseload.

- **SEID enrollees are older than the general AFDC population in the local sites.**

About half or more of the welfare recipients in the local sites are under age 30, as are 55 percent of AFDC recipients across the nation. Only about a quarter of SEID enrollees are under age 30. Several explanations for the appeal of self-employment to older clients can be suggested. More experienced individuals are more likely to have developed a skill or an area of expertise that can lead to a business idea. Also, older people have had more opportunity to work for someone else, and to become restless or disillusioned under that arrangement.

- **The ethnic make-up of the SEID sample is representative of the local catchment areas.**

The SEID sites with the highest enrollment (the two Iowa sites and WEDCO) are located in predominantly white communities. Thus, the SEID sample has more whites (55 percent) and fewer Hispanics (2 percent) than the national AFDC population, which is 40 percent white and 16 percent Hispanic. Black enrollment in SEID is proportional to the national AFDC population.

The proportional representation of blacks in the SEID sample compared to the local AFDC caseload is of interest because blacks are largely underrepresented among small business owners. This is not because black-owned businesses fail at a higher rate, but because fewer blacks start businesses in the first place. By enrolling blacks in numbers proportional to their representation in the local population, SEID may contribute to the minority small business formation rate. Whether the program fulfills this promise depends on the rate at which SEID enrollees become business operators.

- **Marriage is more common in the SEID sample (74 percent) than in the general AFDC population in the local SEID sites, or in the national AFDC population (44 percent of the AFDC population has ever married).**

The marital status of SEID enrollees is related to the age and racial composition of the SEID sample: Marriage (and therefore divorce) is more common among AFDC recipients who are older and those who are white. Also, the marriage rate for the SEID sample was raised by the enrollment of a relatively large number of AFDC-U clients by Mid-Minnesota. As noted earlier, the AFDC-U program serves two-parent families, and most cases are composed of married couples.

- **Larger families are more common among SEID enrollees than in the national AFDC population.**

While only 25 percent of AFDC families in the United States have three or more children, 37 percent of SEID families do. The fact that SEID enrollees are older than the average AFDC recipient partially explains the overrepresentation of larger families in this sample. Because they are older, SEID enrollees have had time to complete their families, unlike younger women who may have more children later in life. This is of interest to policymakers because larger families require more public assistance, so a larger amount of public money can be saved by a program that successfully moves such clients off welfare in a timely fashion.

Because SEID enrollees are older, it would seem to follow that their children should be older as well. However, the data indicate that the children of SEID enrollees are quite young. The average age of the youngest child is 6.9 years, and relatively few SEID families (15 percent) have a youngest child who will turn 18 within the next five years. Evidently, SEID clients started or continued having children in their later childbearing years. A family with younger children will be eligible for welfare for a longer period of time (families are eligible for AFDC until their youngest child is 18). Therefore, the heads of such families are an important target for welfare employment programs intended to prevent long-term dependence.

- **SEID enrollees are far more likely to have a GED or high school diploma than is the general welfare population in their catchment areas.**

The overwhelming majority of SEID enrollees – 89 percent – have a GED or high school diploma.[7] SEID enrollees' achievements in education are, to a small extent, explained by their

[7]Canton represents a striking exception to this picture. Only 44 percent of Canton enrollees have either credential, and only a quarter received vocational training. As discussed above, the low level of AFDC grants in Mississippi may explain why clients with educational or vocational qualifications might not choose to enroll in a long-term project that would temporarily extend their dependence on welfare.

age. Since SEID enrollees are often in their thirties, they have had an opportunity to finish high school or obtain a GED after dropping out. The younger AFDC recipients, who make up a larger proportion of recipients in local catchment areas and the national AFDC population, have not had an equivalent opportunity to complete their high school education.

- **SEID enrollees are markedly more disadvantaged than is the local or national AFDC population in only one respect: 61 percent have been on AFDC for *more* than two years.**

This is a much higher percentage than is found in the general AFDC population of SEID sites[8] or the national AFDC population (51 percent of whom have been on welfare for more than two years). This indicates that SEID is attracting a disadvantaged population; according to recent research on welfare caseload dynamics, the majority of clients who remain on AFDC beyond two years are likely to remain on welfare for several more years.

However, the implications of this research for SEID are unclear. The SEID sample does not resemble the long-term welfare population – a population made up of unmarried women with young children, and little education or work experience.[9] Therefore, despite the fact that they are currently in the midst of a two-year spell of dependency, it is uncertain that SEID enrollees will stay on welfare for the long term. They may be among that portion of the long-term caseload that is "ready" to leave welfare soon.

Overall, the SEID population looks quite different from other welfare recipients in their local areas and in the nation as a whole. Certain characteristics (age, marital status, and educational credentials) indicate that SEID clients are already more employable than are most women on AFDC. Other characteristics (length of welfare dependence and ages and number of children) indicate that SEID clients may be headed toward more years of dependence than is the average recipient, at higher than average cost to the welfare system.

While SEID clients are markedly different from the general AFDC population, they are somewhat typical of a special subgroup of welfare recipients – those who participate in selective, voluntary employment programs. Based on information from grant diversion projects in Maine and New Jersey, such programs seem to serve a client population that is older and more educated,

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[8]Canton is an exception. More than two years of welfare receipt is actually *more* common in Canton's general AFDC population than in the local SEID sample.

[9]Ellwood (1986).

and that has a history of more than two years of welfare receipt. On this basis, it would seem that SEID should not be sold as the only way to reach clients, nor can SEID be dismissed as a program that creams the local welfare population to an unprecedented degree (see Appendix E for a more detailed discussion).

IV. Summary

Over the first half of the demonstration, SEID's enrollment rate increased, despite the stronger emphasis on screening and selection of clients (as discussed in Chapter 5). This indicates that SEID recruitment was tapping into a pool of clients who were interested enough in the program to enroll, and were judged to be acceptable by the program operators.

A comparison of clients who chose to enroll in the program with those who did not demonstrates that there were few measurable differences between the groups in terms of client characteristics. Enrollees appeared to be slightly less disadvantaged than non-enrollees in terms of age and some employment-related characteristics. Program operators suggest that subjective characteristics such as determination and independence are better predictors of which clients will pursue self-employment through SEID.

Overall, SEID enrollees share a number of characteristics that would suggest that they have reasonable prospects for economic self-sufficiency. The majority have a high school diploma or GED, vocational training, and employment experience; furthermore, they have worked full-time at their longest job. While SEID enrollees appear to be employable, they have for the most part worked in low-wage jobs. These factors indicate that they may be appropriate targets for programs geared to reducing poverty. Moreover, most SEID enrollees have received AFDC continuously for two or more years. Research on welfare caseload dynamics indicates that clients who have this kind of welfare history are likely to remain on welfare for several more years. However, SEID enrollees are so atypical of the long-term welfare population[10] that it is risky to assume that they will depend on AFDC for many more years. They, like participants in other selective, voluntary welfare programs, are a "creamed" group.

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[10]The group most at risk of long-term dependence consists of young, never-married women who, at entry into the program, have a child under age 3. See Ellwood (1986).

At least one-third of SEID enrollees have been previously self-employed. Given that enrollees operating underground businesses are unlikely to report their self-employment activity this estimate is probably low, but it is impossible to know by how much. However, given the high proportion of clients who report prior self-employment, SEID should be viewed in large part as a project that assists small-scale or unsuccessful entrepreneurs, and/or expands and legitimizes unreported businesses.

CHAPTER 7

BUSINESS TRAINING AND DEVELOPMENT OF THE BUSINESS PLAN

Once clients enroll in SEID, staff face the challenge of teaching them the basic business concepts needed for self-employment and helping them develop a business plan that applies this information to their own proposed business. SEID business training differs from standard vocational training in that clients are expected to already know the skill or trade upon which they will build a business. For example, SEID would not teach a client how to bake, but would teach her how to set up a sweet shop. During training, a client would research the cost of cookie ingredients, equipment, available locations, and consumer demand (how many cookies will sell per month). Based on these expectations, the client learns how to set a price that will yield sufficient income to eventually get her off welfare.

This chapter describes business training classes and discusses how sites prepare clients for completing a business plan – the next phase in the SEID program model and the step that has proven to be a major hurdle for many clients. It then discusses how many clients completed a business plan, how long it took them, and the types of businesses proposed in business plans. The last section of this chapter discusses reasons why many clients progress very slowly or terminate during the business plan preparation phase.

To summarize the findings, although a high proportion of all enrollees completed business training classes (see Chapter 4), relatively few enrollees complete a business plan. This group, however, completes a business plan relatively quickly – just under five months on average.[1] Another sizable group of enrollees, in contrast, are still enrolled in SEID at nine months (47 of 92 active enrollees) but have not completed a business plan.

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[1]This average includes only business plan completers; it is not an average of the entire sample.

I. Business Training

A. Staffing, Topics, and Methods

Every SEID program includes a series of group workshops designed to prepare clients for completing their individual business plans. They deal with subjects such as marketing, financial planning, insurance, taxes, and management. The curriculum covers each area only to the extent needed for completing a business plan. For example, clients learn how to define a target market; develop promotion, advertising, and selling strategies; complete a cash flow projection; understand the insurance needs of their proposed business, and tax and permit regulations. Clients are expected to already have sufficient knowledge about the substantive area of their business (for example, jewelry repair or car maintenance). Therefore, the training is confined to general business concepts.

Sites have different staffing arrangements for providing business training. Iowa and WEDCO use SEID in-house staff to provide business training. In WEDCO, the SEID staff are assisted by specialists in marketing and finance drawn from WEDCO's larger staff. Business training at Mid-Minnesota is provided at a local technical institute by a faculty member and the director of the local technical college's Small Business Management Program. Two consultants teach business training in Canton – one specializing in finance, the other in marketing. In Meridian, the project director teaches most business training classes, but he draws upon the faculty of the college's business center for guest speakers to address specific topics. One trainer taught all business classes in the Michigan site.

Teaching materials are drawn from a number of sources and, in every site, trainers have customized materials and developed special handouts. WEDCO SEID staff draw upon the established curriculum and body of teaching materials developed over the course of their organization's experience in entrepreneurial training. The WEDCO training manual is a resource used by other sites as well, especially in Meridian and Canton. The Canton instructor uses the WEDCO manual, along with materials from the Small Business Administration (SBA) and the Chicago Women's Self-Employment Project. The Mid-Minnesota instructors draw heavily on business periodicals, while also using material from college textbooks. Iowa staff use a variety of training materials including curricula developed by university small business programs, SBA, the Service Corps of Retired Executives (SCORE), and the U.S. Department

of Commerce. The Detroit instructor, using her experience as a college business and accounting instructor, developed a curriculum from a number of sources.

Although clients are encouraged to use libraries and business journals to research their business, homework assignments often involve a more active exploration of it. For instance, clients are required to research their competitors. In Iowa, clients complete a worksheet that asks questions about specific competitors, including:

- name of the competing business;
- proximity in relation to her own business;
- estimated share of the total market;
- strengths and weaknesses; and
- business strategies the client plans to use to compete with this other business.

To answer these questions, clients have to identify other businesses selling the same product or service, ascertain their prices, discover differences between their own business and the competition, and think about specific things customers value and ways to set their business apart from the others. Strategies for studying competitors may involve personally "testing the competition," a survey of customers, and, if possible, discussions with the other business operators.

B. Responding to Clients' Difficulty with Business Training

The purpose of group training is not to educate clients about small business operations in the abstract, but to relate the training to clients' own prospective businesses and to contribute to the development of individual enrollees' business plans. This has been the most difficult aspect of the training in many of the sites. In a real sense, the creative step involved in applying general principles to a personal idea for a business is quite different from the process up to this point. Many program operators also argue that this is what distinguishes SEID training from typical basic vocational training. Sites tried a variety of methods to help clients make this breakthrough: group discussion and teacher-student interaction, as well as homework assignments that relate the general lessons to the individual business plan.

In some sites, the difficulties were partly attributable to serious problems in reading and academic skills. In this situation, clients' reading and writing skills hampered their ability to complete homework assignments during the training phase. This was especially true in the Canton site, where basic literacy was a serious problem. Staff modified homework assignments and developed fill-in-the-blank worksheets to direct clients in their research and thinking and to make it easier for clients to provide written reports on their work.

But the problem was more general, involving enrollees who did not have the basic skills needed to understand the material. One strategy sites employed was offering more individualized technical assistance to enrollees during the group business training phase of the program, but this can substantially raise the costs of serving clients.

Sites grappled with this trade-off throughout the demonstration, as the experiences of WEDCO, Iowa, and Canton illustrate:

- At WEDCO, program staff initially responded by shifting more of the business training to individual sessions, which they considered to be a more effective format for assisting the client in business development and business plan production. The cost implications of this, and the smaller number of clients who could be served, gradually led staff to re-emphasize group business training. Staff introduced a "research and development track," which allowed more time to work on marketing and product development in a group format, for those clients who needed it.

- The Iowa program increased individualized business instruction when they hired a second trainer, allowing more staff time for one-on-one meetings to supplement group training. Staff became increasingly frustrated over clients' inability to absorb instruction on basic business skills, and realized that longer-term, more intensive training is necessary for even the most ready clients. Thus, they introduced an additional 10-week series of management classes for the best graduates of the regular business training classes. These classes covered in more depth and detail the same material covered for all clients. However, the classes were dropped because of poor attendance.

- Canton, in contrast, shortened its business training program. The difference between Canton and the other sites is the high illiteracy rates among Canton enrollees, which prevents them from benefiting from classroom training based on written materials. In Canton, weekly individual meetings with staff, after group training ends, substitute for the additional business training classes at other sites.

C. The Number of SEID Clients Completing Business Training

Across all sites, 199 enrollees completed business training as of September 30, 1989.[2] The percentage of enrollees who completed business training varied from site to site. For example, among those enrollees for whom the study had seven months of follow-up data when this report was prepared,[3] 87 percent of those in Mid-Minnesota and 83 percent of those in WEDCO completed training. Business training completers in Waterloo, Cedar Rapids, and Canton ranged from 70 to 76 percent. As of the data collection cut-off date, no enrollees in Meridian had completed business training.

II. Applying Business Concepts in Completing a Business Plan

A majority of enrollees manage to start and complete the SEID business training classes. Simultaneously, clients begin production of a business plan. Building on the concepts taught in business training, clients are expected to produce a business plan – a detailed description of their business idea, with data showing that their business is likely to be profitable. In general, business plans include a narrative portion that defines the product or service and describes both the organizational plan (for example, form of ownership and number and nature of business advisors) and the proposed marketing strategy (for example, market area, competition, location, promotion, selling, and pricing). Business plans also contain a financial section, which includes profit and loss projections and a cash flow analysis. (See Appendix F for the sample business plan that is included in the WEDCO training manual.)

Business plans are important because they ensure that clients have researched and understand essential aspects of owning a business. They constitute a specific document that SEID staff and the business owner herself can refer to and use in monitoring the business owner's progress and in checking the validity of assumptions contained in the plan. Business plans are also necessary for securing financing from a loan fund or commercial bank. Information needed for loan applications is taken directly from the completed business plans. Program operators suggest that the effort and independent work needed to complete a

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[2]Appendix Table C.1 presents the total number and percentage of clients in each program phase from start-up through September 30, 1989.

[3]Table 4.2 documents the rate of progress through successive phases of SEID for the sample of SEID clients who have seven months of follow-up data as of September 30, 1989.

business plan also gives clients a better understanding of the nature of self-employment. For all these reasons, completing a business plan is a necessary step to opening a business for SEID clients.

Perhaps the most important aspect of the business plan is that it outlines clients' strategies for developing businesses that will generate enough income for them to leave welfare. Clients are discouraged from continuing to plan for a business that will not enable them to become self-sufficient within a one- or two-year time frame. Business income is expected to replace welfare grants as the means of supporting the client and her family. Many enrollees may be capable of operating a business – indeed, many were operating a business when they enrolled in SEID – without program assistance. SEID businesses differ from other businesses because, from the start, they are planned to enable clients (with staff assistance) to achieve economic self-sufficiency. From this standpoint, the business plan is the mechanism by which self-employment becomes a means for SEID clients to get off welfare. By working with clients on their business plan, evaluating the document and finally approving it, SEID staff make a direct contribution to getting the client off welfare.

A. Rates of Completing the Business Plan

Only a small proportion of SEID clients manage to complete a business plan.[4] Table 7.1 shows the percentage of enrollees who completed a business plan within seven months after enrollment.[5] Of the 207 clients with seven months of follow-up, 27 percent completed a business plan within seven months. The percentages were roughly the same for all four sites in Iowa and Minnesota. Although the percentage of business plan completers was high in Canton, it should be noted that the number of enrollees in Canton with seven months of follow-up was very small, making comparisons difficult. These numbers illustrate that only a small proportion of enrollees ever complete a business plan.

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[4]For the reasons stated in a note to Table 7.1, Detroit is not included in the following analyses.

[5]Seven months was chosen because, as discussed below, almost all the clients who completed their business plan before the cut-off of data collection did so within seven months of enrollment. This sample includes clients who enrolled on or before February 28, 1989 – that is, seven months before the cut-off of data collection.

TABLE 7.1

BUSINESS PLAN COMPLETION RATE FOR ENROLLEES
WITH SEVEN MONTHS OF FOLLOW-UP

	Waterloo, IA	Cedar Rapids, IA	WEDCO, MN	Mid-Minnesota, MN	Meridian, MS	Canton, MS	Total
Business plan completion rate	34.1%	28.9%	27.6%	23.1%	0.0%	60.0%	29.5%
Sample Size	41	38	76	39	3	10	207

SOURCE: Calculations from MDRC enrollment and tracking forms.

NOTES: Data include clients who enrolled through February 28, 1989.

Detroit is not included because client tracking data were not reported by the original contractor after the first six months of program operation. SEID staff from the second contracter (Wayne State University) reviewed the casefiles of the first cohort of SEID clients and found drafts of business plans for 29 of 111 enrollees. However, since Wayne State staff had no direct contact with these clients it was not possible to determine whether those plans had been finally evaluated and approved by the staff of the original contractor. The plans themselves do not indicate whether they represent a strategy for developing the business to be sufficiently profitable to get the client off welfare.

B. Speed of Completing the Business Plan

Although only a small percentage of enrollees actually completed a business plan, those who did completed it within a relatively short time after enrollment. Table 7.2, which shows how many months it took clients to complete a business plan, reveals that more than half of the business plan completers did so within four months of enrollment. In all sites for which data are available, almost all completers (91 percent) finished within seven months of enrollment. The average time it took clients to complete a business plan ranged from slightly more than four months in Cedar Rapids to seven months in Canton. In Canton, because literacy was a problem for most clients, SEID staff wrote many of the business plans for the clients, using the clients' research and their own words to describe the business. This problem and programmatic practice may have lengthened the time for completing a business plan, accounting for the completions all occurring in the same month. As of September 30, 1989, the longest time any client had taken to complete a business plan was 13 months from enrollment.[6]

C. The Businesses Proposed in Completed Plans

Table 7.3 lists the categories of business ideas proposed by all enrollees who completed a business plan through September 30, 1989. Most clients continued with their original business idea from enrollment to business plan completion; only eight of the 64 business plan completers noted that they had changed their business idea.[7] This suggests that clients have more than just a passing interest in their idea, and it is likely (based on this and information about past vocational training) that they have some experience in the area of their proposed business.

A majority of business plan completers decided to provide a service either to individuals or to businesses. Selling items retail or wholesale and restaurant/food services were the next most popular choices. Making items to sell retail or wholesale was the least frequently chosen

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[6]It is possible that some early enrollees finished their business plans long after September 1989. For example, in October 1990, Mid-Minnesota instituted a policy of terminating clients who had not finished business plans after 18 months in the program. Shortly before the policy went into effect, three early enrollees produced completed business plans.

[7]It appears that SEID staff may have somewhat underreported the number of clients who changed their business idea, so the actual percentage may be slightly higher. The new business idea (when it is known) is included in Table 7.3.

TABLE 7.2

NUMBER OF SEID ENROLLEES WHO COMPLETED A BUSINESS PLAN, BY MONTH

	Waterloo, IA	Cedar Rapids, IA	WEDCO, MN	Mid-Minnesota, MN	Meridian, MS	Canton, MS	Total
Month 2	3	2	2	2	0	0	9
Month 3	4	5	5	2	0	0	16
Month 4	0	3	5	1	0	0	9
Month 5	3	0	2	2	0	0	7
Month 6	1	1	5	1	0	0	8
Month 7	2	0	1	0	0	6	9
Month 8	0	0	1	0	0	0	1
Month 9	0	0	0	1	0	0	1
Month 10	0	0	0	0	0	0	0
Month 11	3	0	0	0	0	0	3
Month 12	0	0	0	0	0	0	0
Month 13	0	1	0	0	0	0	1
Total	16	12	21	9	0	6	64

SOURCE: Calculations from MDRC enrollment and tracking forms.

NOTES: Data include clients who enrolled through September 30, 1989.

Detroit is not included because client tracking data were not reported by the original contractor after the first six months of program operation. SEID staff from the second contracter (Wayne State University) reviewed the casefiles of the first cohort of SEID clients and found drafts of business plans for 29 of 111 enrollees. However, since Wayne State staff had no direct contact with these clients it was not possible to determine whether those plans had been finally evaluated and approved by the staff of the original contractor. The plans themselves do not indicate whether they represent a strategy for developing the business to be sufficiently profitable to get the client off welfare.

Because of rounding, month 2 means that the enrollee completed a business plan within 2 1/2 months of enrollment in the program, month 3, that the enrollee completed a business plan between 2 1/2 and 3 1/2 months of enrollment, and so on.

TABLE 7.3

BUSINESS IDEAS PROPOSED IN COMPLETED BUSINESS PLANS, BY TYPE OF BUSINESS

Type of Business	Business Idea
Providing a service to individuals and/or other businesses	Cleaning services (residential and commercial) (6)
	Child day care (3)
	Video rental (3)
	Pet grooming (2)
	Fine jewelry repair
	Car maintenance
	Lawn mower and small engine repair
	Repairing consumer electronics
	Vinyl repair
	Building and remodeling
	Painting and carpentry
	Nanny placement
	Art education
	Record-keeping
	Toning and tanning
	Skin care, body care, men's and women's fragrances (cosmetics)
	Mail-order business and tabloid newspaper
Providing a service to other businesses	Desktop publishing (2)
	Secretarial/bookkeeping services(3)
	Collecting on bad debts
	Syndicated radio programming
	Radio commercial production
	Graphic design
	Carpet-laying
	Expert advice for businesses with phone system problems
	Artwork (commercial)
Selling items wholesale and/or retail	Craft supplies
	Stout women's clothing
	Retail magic supplies and magician performances
	Jewelry, watches, and diamonds
	Custom-made clothing
	Flowers
	Musical baby blankets and accessories
	Used clothing

(continued)

TABLE 7.3 (continued)

Type of Business	Business Idea
Restaurant/food industry	Barbecue
	Restaurant
	Catering
	Lunch wagon (sandwiches, desserts, etc.)
	Bakery/coffee shop
	Mexican food
	Mobile food (lunch wagon specializing in authentic ethnic food)
	Health food
Making items (to sell wholesale and/or retail)	Jewelry
	Manufacturing wet/dry aquarium filters
	Lithographic prints
	Silk flowers
	Wildlife films and videos
	Personal condom wallets
Total number of business ideas[a]	61

SOURCE: Information from MDRC enrollment forms and SEID program operators.

NOTES: Data include clients who enrolled through September 30, 1989.
[a]There were a total of 64 business plan completers. Three business plan completers are excluded from this list because of missing data.

type of business. Program operators as well as others interested in self-employment express the concern that clients, especially in rural areas where there is less exposure to new ideas, will be interested in a small number of business ideas. This list shows that SEID clients enter the program with a variety of ideas that originate from their own interests and previous work experience.

A second common concern about the nature of possible businesses is that they will be too dependent on the income and spending potential of the client's immediate neighborhood. If clients propose businesses requiring a retail facility, for example, and their limited resources force them to rent space in their own low-income neighborhood, the potential demand for their products would be relatively small. Some of the ideas in the categories of restaurant/food industry and personal and/or business services seem to face this danger. But others would draw customers from a wider market, which might be reached through mail orders or through specialized advertising channels. In the latter case, customers might travel within a city or even a metropolitan area to reach a specialty outlet. Still other proposed businesses could be operated using a car or truck to go to the customer. SEID clients will still face the problem of linking up with potential customers in a wider geographic market, but many are not proposing businesses dependent on the local walk-in trade.

III. Understanding the Reasons for Non-Completion of the Business Plan

Those who fail to complete a business plan fall into two categories: individuals who formally leave the program and those who remain enrolled for a long period without completing the plan. The barriers hindering completion of the plan may be different for each group.

A. Clients Who Leave the SEID Program

Program operators cite four types of reasons why enrollees leave the program during the preparation of their business plans. In many cases, the reasons cited suggest that the client may have made a realistic judgment about her likelihood of succeeding in self-employment, and not that she simply lost interest in the program.

1. The workload of the training and the challenges of self-employment. While a significant number of enrollees have attended training programs before they enroll in SEID,

preparing a business plan requires independent research that takes considerable time and energy. Clients may become disillusioned by the amount of work needed to complete a business plan and realize that they do not want to put in the amount and kind of effort needed to run their own business. Some of these clients may then find a regular job or enroll in a different training program, though (as mentioned earlier) the available data suggest that the percentage doing this is low.

2. **Insufficient income from the proposed business.** Some enrollees realize through the required financial analysis that their proposed business will not yield enough profits for them to become self-sufficient, and they may be reluctant to begin work on a different idea. Program operators require clients to research their business idea sufficiently so that they have reasonable estimates of supply and equipment costs, sales projections, rent, and insurance costs. Staff question clients' research and sources of information to ensure that completed business plans reflect realistic expectations.

3. **Personal circumstances that limit participation.** Other clients terminate during this phase because of personal problems that prevent them from committing the time needed to succeed in SEID. With the program focus on business training and development, it is easy to lose track of the fact that SEID clients are living the precarious life of those relying on public assistance. Housing problems are common; friends and family may undermine their efforts; and day care and transportation may be an issue.[8]

4. **A decision to operate underground businesses.** Program operators suggest that some clients want to take advantage of SEID training and technical assistance, but do not want to report income to AFDC caseworkers as the program requires. Such clients might decide to drop out and operate their businesses underground.

B. Clients Who Remain in SEID but Do Not Complete the Business Plan

Even though enrollees who complete a business plan tend to do so in a short time period, there is a sizable group of clients who continue to be enrolled in SEID after they have finished the technical college's business training but who fail to complete a business plan.

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[8]Since these issues also arise for clients who remain enrolled in SEID, the response of program operators is discussed in a separate section later in this chapter.

The percentage of enrollees who are still active at nine months but who have still not completed a business plan varies by site:

- Waterloo: 7 out of 17 active enrollees (41 percent)
- Cedar Rapids: 11 out of 20 active enrollees (55 percent)
- WEDCO: 10 out of 22 active enrollees (45 percent)
- Mid-Minnesota: 17 out of 25 active enrollees (68 percent)
- Meridian: 2 out of 2 active enrollees (100 percent)
- Canton: 0 out of 6 active enrollees (0 percent)

Why do some clients spend so long in the program without completing their business plan? Program operators suggest that clients have difficulty understanding business concepts such as pricing, production goals, and defining their target group and product, and may need extra individual assistance to understand these concepts in relation to their own business. In other cases, clients realize that their proposed business is unlikely to be successful and begin planning for a different kind of business.

Another explanation is that when clients get close to meeting their personal goals, their support network begins to fall apart as friends and relatives get jealous. Program operators suggest that the client's old peer group may attract her back into her old habits and lifestyle. There may be other crises in the client's life, such as a major housing issue or relationship problems, that prevent her from progressing. At WEDCO, clients are told they may take a leave of absence from the program in these circumstances.

Clients who are already operating a business when they enroll may be afraid of making their business legitimate and losing the safety net of AFDC. They may also fear the responsibility of taking on a loan that they may be unable to repay.

Program operators in Mid-Minnesota and Iowa report their suspicion that a few clients in this group may remain enrolled in SEID for as long as possible to avoid having to participate in other kinds of welfare employment activities such as workfare, job search, or other training that may be required under the JOBS program.

SEID program operators remain willing to work with all enrollees who are committed to opening a business and who continue working on their business plan. Unable to predict

which clients will finish, staff believe it is in their interest to continue working with all clients rather than setting a limit on the length of participation. SEID staff, previously unaccustomed to working with the welfare population, realize that these clients have many barriers to overcome before they are ready for self-employment. And, rather than assuming they will never finish a business plan, staff give clients time to contend with these problems.

Allowing clients unlimited time to complete a business plan may ultimately increase the number of business plan completers. However, there are trade-offs with this option. Again, this choice reflects the diverse goals of SEID. Many of the justifications given in the previous paragraphs for continued participation reflect the economic development perspective or the personal development perspective toward SEID. In the first view, it is so hard to predict which businesses will actually succeed that "letting a thousand flowers bloom" is a good operational rule. From the personal development perspective, the process of working through the issues connected with self-employment may be seen as valuable in itself. However, from the perspective of the welfare administrator concerned about welfare costs, continued involvement in SEID with little prospect of success may have negative consequences. Participants may not become involved in other employment or training initiatives or may not seek regular employment, both results that could extend their time on welfare. Also, a deadline for producing a business plan might stimulate some clients who otherwise might delay indefinitely as Mid-Minnesota's recent experience indicates.

Some program operators have responded to this dilemma pragmatically, judging that extended participation can spread staff time so thin that the overall program will be undermined. Clients enrolled in SEID who are not progressing with their business plan use up staff time and other program resources that could be used to serve other clients. Iowa program staff have identified this as a problem, and near the end of the period covered by this report, they started spending more time on the promising clients and less with those who were not progressing with their business plan. The fact that this pragmatic approach arose most clearly in Iowa probably reflects the fact that SEID is a mainstay of ISED's existence, and ISED is not linked to any particular philosophy of economic or personal development. In addition, the state officials in Iowa regard timely exits from welfare as a high priority for SEID. Other organizations have more diverse funding bases (community colleges, Head Start funding, or other economic development funds) or an organizational perspective that leads them to avoid this targeting of staff resources to the more successful clients.

C. Addressing the Child Care and Transportation Needs of Clients

Remedying the serious crises in clients' lives is clearly beyond the scope of the SEID program, but addressing more mundane problems such as child care and transportation expenses is a possibility. Program operators acknowledge that participants, as in most training programs for low-income populations, often need to be reimbursed for training-related expenses such as transportation and child care.

Program operators reported that approximately one-quarter of enrollees had transportation problems at some point during their participation.[9] WEDCO had the highest proportion of enrollees reporting such problems (42 percent); Mid-Minnesota had the lowest (8 percent). Program operators also reported that approximately one-fifth of their clients experienced child care problems at some point in their participation in SEID. WEDCO had the highest proportion of enrollees reporting child care problems (36 percent); this is consistent with the fact that WEDCO serves the highest proportion of clients with preschool children in need of all-day care. Thirty-one percent of Cedar Rapids clients and 18 percent of Waterloo clients reported child care problems, as did 13 percent of Canton clients. Mid-Minnesota and Meridian reported that they were not aware of any clients having child care problems.

Most SEID programs do not provide support services such as child care and transportation directly, but they can refer clients to other agencies for these services. While SEID staff agree that these services are useful, they disagree as to how involved staff should be in ensuring that clients receive them. The local policy is influenced by the agency's overall perspective on the program and by the availability of services.

A high proportion of Mississippi clients was known to have received support services in at least one calendar quarter, according to program operator reports, with transportation being the support service most commonly reported. Across all sites, staff report that 33 percent of all enrollees received transportation services at some point during their participation in SEID.[10] The proportion of clients reportedly receiving this service was highest in

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[9]In this and succeeding comments on support services, the Detroit site is not included because data were unavailable.

[10]Detroit is not included because data were unavailable.

Mississippi (Canton, 70 percent; Meridian, 57 percent), while Iowa reported receipt of transportation for fewer than half of SEID enrollees (Waterloo, 35 percent; Cedar Rapids, 47 percent), and reports of transportation receipt were lowest in Minnesota (WEDCO, 24 percent; Mid-Minnesota, 9 percent). Overall, child care services were received by 30 percent of enrollees. Again, Mississippi clients received this service more than enrollees in other sites: 71 percent of enrollees in Meridian and 61 percent of Canton enrollees reportedly received child care services at some point during their participation. Levels of receipt were mixed in Iowa (Waterloo, 30 percent; Cedar Rapids, 59 percent), and in Minnesota, relatively few clients were reported to receive child care assistance (WEDCO, 16 percent; none reported in Mid-Minnesota).

Mississippi staff, with a human services orientation, believe that clients would be unable to participate without child care and transportation reimbursement, and they make a serious effort to see that these services are provided. Mid-Minnesota staff, on the other hand, feel that clients who have the determination and resourcefulness to become entrepreneurs will find a way to obtain these services on their own. They also argue that these problems will not go away once the business is running and the client leaves welfare, so encouraging the client to develop a way of addressing them is important.

Other factors besides the philosophy of the staff also affected receipt of support services. As mentioned earlier, most SEID sites accessed other existing programs for support services. The priorities set for the allocation of support in these other programs could put SEID clients near the end of the line. This was the case in Minnesota, where SEID enrollees were eligible for support services through Minnesota's welfare employment program, Project STRIDE. SEID staff had to request support service payments from the local Department of Social Services on the client's behalf. The Project STRIDE program, however, was targeted to particularly disadvantaged recipients (such as high school dropouts). SEID clients proved to be less disadvantaged educationally and in other respects than were many other recipients. Thus, their claims had lower priority, leaving them at the end of the queue for limited support service funds.

IV. Lessons for Targeting Outreach on Likely Business Plan Completers

Because only a small proportion of enrollees complete a business plan, program operators feel growing pressure to recruit and select clients likely to complete the program. Ideally, program operators would like a list of easily observable characteristics that would allow them to identify, up front, people who are likely to succeed in the program. To assess whether it is possible to produce such a list, business plan completers were compared with non-completers on a long list of measured characteristics linked with success.[11]

The analysis was unable to find factors in the list of measured characteristics that did well at predicting who would complete a business plan. Differences in such characteristics as age, welfare history, education, and marital status did not distinguish between business plan completers and non-completers. Clients who reported that they were currently or previously self-employed were somewhat more likely to complete a business plan, but prior self-employment was not a strong predictor of business plan completion.

Thus, for the most part, these results support program operators' contention that it is impossible to discern which enrollees will be successful entrepreneurs on the basis of objective personal characteristics. The finding that previously self-employed clients are more likely to complete a business plan is important for targeting recruitment efforts. Not surprisingly, attracting clients who are likely to complete a business plan increases the number of business operators. However, targeting recruitment efforts on welfare recipients who have been self-employed, currently or in the past, is problematic. AFDC recipients are reluctant to admit to being self-employed for fear of reporting their income to the welfare department. Furthermore, this pool of welfare recipients may be too small to depend on for reaching recruitment goals.

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[11]A regression analysis was conducted to determine differences in enrollee characteristics among business plan completers and non-completers. As noted earlier, most of those who complete a business plan do so by seven months after enrollment. Consequently, seven months was used as a cut-off point; there were 207 clients with seven months of follow-up. Whether a client completed a business plan within seven months was the dependent variable. The independent variables included: ethnicity, marital status, site, ever received vocational training, ever self-employed, and length of time on AFDC. See Appendix B for a detailed result of the regression.

CHAPTER 8

BUSINESS START-UPS

This chapter discusses SEID clients' experiences in obtaining financing, starting a business, and using the waivers. The first section describes the types of businesses SEID clients started. The second section deals with sources and amounts of financing used to start these businesses. The third section concerns technical assistance provided to business operators. The fourth reviews the administration of the waivers – their use by business operators, when sites began them, cooperation with AFDC caseworkers, and problems with waivers. The fifth and final section presents early findings on the economic development potential of SEID with regard to the number of employees hired by SEID businesses. It should be noted that this is a preliminary discussion based on very early findings.

I. Business Openings

A central question in the SEID demonstration is how many SEID participants are able to open a business. Although this is a seemingly straightforward question, the answer is complicated for two reasons. First, sites use different definitions of business openings.[1] Second, many SEID clients are already running a business when they enroll in SEID. These businesses tend to be either small-scale operations that yield insufficient income for the client to get off welfare or "underground" businesses operated without the knowledge of the welfare system. Clients operating businesses prior to enrolling in SEID may account for a large proportion of SEID business

[1]Sites' criteria for defining business openings include: 1) completion of a business plan; 2) receipt of a loan; 3) looking for customers and being ready to provide the product or service; 4) registration with the city or county; 5) receipt of first income; 6) receipt of considerable income. Michigan's criteria are registration of the business with the appropriate government office, and the operator's statement that he or she is ready to serve customers. Canton uses loan receipt and receipt of a city business operating license. The Minnesota sites go farther, requiring that the business must be viable and ready for operation. Mid-Minnesota imposes a requirement that business plans must project self-sufficiency for the client (which they define as a net income of $1,000 to $1,500 per month) within 12 months. WEDCO considers a business to be started when the client completes a business plan, obtains a loan, and has served or is looking for customers, and when the business is ready to provide the product or service it promises. Meridian counts a business at the first sale. Iowa's definition, a less precise one, pragmatically considers the scope of the income in relation to the AFDC grant.

operators. For example, Iowa state officials report that 62 percent of their business operators were engaged in some form of self-employment when they enrolled in SEID. Moreover, across all sites, one-third of all enrollees through April 1990 report that they have been self-employed part-time or full-time currently or in the past. This probably underestimates the number of clients with self-employment experience, since they may deny that they operate a business to avoid reporting their income to the welfare department. However, these activities evidently were or are not profitable enough to make the business operator self-sufficient. SEID businesses differ from these other enterprises in that with the ongoing guidance of the program operators, they are strategically designed to generate enough income to get the client off welfare. A completed business plan is the primary evidence used in this report to indicate that the SEID participant's business is designed to achieve this objective.[2]

Table 8.1 shows the total number of SEID businesses (and waivers) in each site.[3] From the beginning of the SEID demonstration through the end of data collection for this report in September 1989, 50 SEID participants (16 percent of all enrollees through September 1989) were operating a business. As discussed in Chapter 7, only a small percentage of enrollees complete a business plan. Comparing the number of business operators with business plan completers demonstrates that once a business plan is completed, however, there is a high likelihood that the client will open a business. Three-fourths of the SEID clients who completed a business plan opened a business.

The number of businesses varied greatly from site to site; reasons include the differences in the length of time sites had operated as well as local differences in the size of the eligible pool, economic conditions, client characteristics, and so forth. Almost three-fourths of the businesses were started by clients in the two Iowa sites and WEDCO; each of the Iowa sites reported nine business operators, while WEDCO had 18. The concentration of businesses in these sites is largely explained by the fact that the WEDCO and Iowa programs began at least six months before the other sites, and enrolled a larger number of clients than did other sites – together they account

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[2]Program operators reported 12 businesses opened by clients who did not complete a business plan (1 in Waterloo, 1 in Cedar Rapids, 9 in WEDCO, and 1 in Meridian). These cases are not included in MDRC's count of SEID businesses.

[3]Detroit is not included in the following analyses because client tracking data were not reported by the original contractor after the first six months of program operation. In a survey conducted by Michigan's Department of Social Services, 30 clients reported themselves to be in business by May 1990, and 22 of these clients reported cash flow.

TABLE 8.1

NUMBER OF BUSINESSES OPERATED AND WAIVERS RECEIVED, BY SITE

	Waterloo, IA	Cedar Rapids, IA	WEDCO, MN	Mid-Minnesota, MN	Meridian, MS	Canton, MS	Total
Businesses	9	9	18	9	0	5	50
Waivers	9	8	12	9	0	4[a]	42

SOURCES: Calculations from MDRC tracking forms and information from SEID program operators.

NOTES: Data include clients who began operating a business by September 30, 1989, with the exception of data from WEDCO, which include businesses started through November 1989.

Detroit is not included because client tracking data were not reported by the original contractor after the first six months of program operation. However, according to a survey conducted by the Michigan Department of Social Services, by May 1990, 30 clients reported themselves to be in business and 22 of these clients reported cash flow.

All business operators included here completed a business plan.

[a]Includes waivers received through October 1, 1989.

for three-fourths of all enrollees through September 1989. Looking at the proportion of enrollees with seven months of follow-up who opened a business, one finds that Canton had the highest percentage (50 percent), Meridian had the lowest percentage (0 percent), and the remaining sites fell in between (Cedar Rapids, 21 percent; Waterloo, 22 percent; Mid-Minnesota, 23 percent; and WEDCO, 24 percent).

Since the number of businesses started is such an important question in SEID, supplementary information was collected on business starts through April 30, 1990.[4] In these additional seven months between September 1989 and April 1990, there were a total of 23 additional businesses: 4 in Waterloo, 6 in Cedar Rapids, 9 in WEDCO, 2 in Mid-Minnesota, 1 in Meridian, and 1 in Canton. Through April 1990, the total number of business openings rose from 50 to 73, and the percentage of enrollees operating a business increased from 16 percent to 19 percent.[5]

These numbers indicate that progress was very slow toward achieving the business opening projections made in the states' waiver applications and contracts with service providers. For example, Iowa's 1989-90 contract stipulated that there would be 74 business start-ups or expansions by June 30, 1990; they had, at most, 28 businesses by April 1990. In Minnesota, WEDCO's contract called for 60 businesses by December 31, 1989, and Mid-Minnesota was to have 40 businesses by the same date; WEDCO had 18 by September 30, 1989, and Mid-Minnesota had 9. In Mississippi, Canton's goal was 15 businesses and Meridian's goal was 18 businesses, both by December 31, 1989; Canton had 5 as of September 30, 1989, and Meridian had none.

A. The Types of Businesses Started

The types of businesses started by business operators were much the same as those proposed by business plan completers (see Table 7.3). As illustrated in Table 8.2, providing a service – either to individuals or to other businesses – was the most popular type of business, representing

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[4]This rough count was arrived at by asking program operators for a list of SEID businesses through April 1990. Since there were not full tracking data through April 1990, it is not known whether all the additional business operators listed by the sites had completed a business plan. Consequently, the sites may have included a few operators who were running businesses without a business plan. The April count includes the seven clients who were reported to have opened businesses by September 30, 1989, but who had not completed a business plan by that date. The count allows for the possibility that those clients finished a business plan by April 30, 1990.

[5]The small increase in the percentage of enrollees starting a business occurred because, as the period of data collection was extended, more enrollees became part of the denominator for calculating the percentage.

TABLE 8.2

AVERAGE LOAN AMOUNTS, BY TYPE OF BUSINESS

Type of Business	Number of Businesses	Number of Businesses with a Loan	Range of Loans	Median Loan Amount
Making items (to sell wholesale and/or retail)	5	4	$750-$7,583	$3,412
Selling items wholesale and/or retail	7	5	$1,700-$7,300	$3,000
Providing a service to individuals and/or other businesses	33	24	$544-$80,000	$5,000
Restaurant/food industry	5	4	$4,012-$73,000	$17,250
All businesses	50	37	$544-$80,000	$4,824

SOURCE: Information from MDRC tracking forms and SEID program operators.

NOTES: Data include clients who began operating a business by September 30, 1989, with the exception of data from WEDCO, which include businesses started through November 1989.

Detroit is not included because the original contractor did not establish access to loans for SEID clients. In addition, client tracking data were not reported by the original contractor after the first six months of program operation. However, according to a survey conducted by the Michigan Department of Social Services, by May 1990, 30 clients reported themselves to be in business and 22 of these clients reported cash flow.

two-thirds of all SEID businesses. Services to other businesses included bookkeeping/secretarial and desktop publishing businesses. Businesses intending to serve both individuals and other businesses included cleaning services and painting, whereas jewelry repair, pet grooming, and video rental were designed as a service to individuals. Of the seven clients who opened a business selling things (wholesale and/or retail), clothing was the most popular item being sold. Five clients started a business in the restaurant and food industry. These businesses varied from full-scale restaurants to a catering service. Five clients opened businesses that involved making items (to sell wholesale and/or retail) such as jewelry and silk flowers.

B. Illustrative Examples

The following examples illustrate some of the ways in which the SEID program can benefit clients, and some of the pitfalls of this type of program approach.[6]

Successes:

- **Clients learn to explore various business possibilities and may decide on a different, more viable option.**

A divorced woman with three children who had been receiving AFDC for three years was encouraged to enroll in SEID by her parents. At first, she wanted to open a day care business, but during business training she began exploring other options. Using skills she learned in a vocational training program in graphic arts, she decided to run a home-based desktop publishing business. She is now off AFDC and her business is doing well.

- **SEID clients are encouraged to start their businesses on a small scale; most business operators work out of their home. After the business grows, clients may expand and hire employees.**

A woman with three children opened a business cleaning cars. She recently signed a contract with a major national car rental company to clean 20 cars a month, and that company recommended her to another leading car rental company. Despite being a woman in a male-dominated field, she plans to expand the business and hire employees. She hopes to someday have

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[6]In the interests of protecting the confidentiality of clients of the SEID program, these examples do not identify the site in which the business was operated. This concern about confidentiality has also limited the use of specific examples throughout this chapter.

a business location instead of working from her home, and she wants to hire workers to continue expanding her business.

In both of these examples, SEID staff report that the clients' self-esteem was greatly improved both because of the training provided by the program and their success as business operators.

Disappointments:

- **Businesses may be viable, but fail because of bad judgment.**

A client opened a video rental store, but it closed five months later. The client failed to follow a SEID staff recommendation that she wait to hire employees, instead quickly hiring three people. She also ate the refreshments she was supposed to sell. Staff believe this was a viable business spoiled by bad management. The client remains on welfare and has defaulted on her loan.

- **SEID clients may become too dependent on program staff to solve their own problems.**

A woman with one child who had been receiving welfare for 13 years opened a restaurant in her neighborhood. This business, previously a program "showpiece," is now foundering. The client stopped maintaining regular hours and, when she received a notice that her electricity was going to be turned off, asked the SEID staff to bail her out. She also allows her friends to use the business as a "hangout"; SEID staff believe this discourages other customers. Staff believe the client needs counseling to overcome the difficulties of operating a business and to lessen her dependence on staff.

II. The Financing Needs of New SEID Businesses

Table 8.2 shows the amount of financing, categorized by type of business, that individual SEID clients received to start their business.[7] Altogether, 37 business operators received financing; 13 clients decided to operate their business without financing. For the clients who received loans, the median amount of financing was between $3,000 and $5,000 for all types of businesses except

[7]This section uses information on the 50 businesses started through September 1989.

the restaurant and food industry, where it was approximately $17,000.[8] The loan amounts that individuals received varied greatly. Two clients received relatively large amounts of financing: $80,000 for a child day care business and $73,000 for a restaurant. In contrast, a commercial art business was started with loans of only $544.

The amount of financing SEID clients obtained to start their business was affected not only by the type of business, but also by sites' use of their program loan funds, arrangements with banks, and the availability of other loan funds. The relatively small loans typical of most SEID businesses often reflected the limited amount of money available from program loan funds, rather than a judgment of what was best for the business. Across all sites, the median loan amount for individual SEID clients was $4,824. The median amounts in Canton, Waterloo, and WEDCO were less than $4,000; clients in Cedar Rapids and Mid-Minnesota, however, tended to receive $5,000 or more.

There are two main reasons for these differences across the sites. First, sites differentially utilized various funding sources. This is evident from Table 8.3, which details the funding sources used in the loan packages of SEID business operators. This table illustrates that Mid-Minnesota was the only site in which clients commonly used multiple funding sources. Second, the average loan amounts from the same funding source varied across the sites. For instance, the median amount loaned to an individual from a program loan fund was $6,100 in Mid-Minnesota and only $3,294 in WEDCO.

III. Technical Assistance to SEID Business Operators

As the previous examples illustrate, when SEID clients become business operators, they often need special help from the program staff to deal with the changes in their personal life, the stress of self-employment, and the need to fulfill their bookkeeping and AFDC reporting requirements. For that reason, SEID programs provide individual technical assistance to program operators.

In Mid-Minnesota, clients receive the most formal technical assistance: Every client who graduates from Brainerd Technical Institute's Small Business Management Program (which provides

[8]The median is the number in a set of numbers below and above which there are equal numbers of numbers. For example, in the sequence 5, 23, 26, 72, and 127, 26 is the median.

TABLE 8.3

SOURCE OF LOANS RECEIVED BY SEID BUSINESS OPERATORS,
BY SOURCE AND SITE

Source of Loans	Waterloo, IA	Cedar Rapids, IA	WEDCO, MN	Mid-Minnesota, MN	Meridian, MS	Canton, MS	Total
Single-source loans							
Program loan fund	---	---	8[a]	1	---	---	9
Other loan fund (public or nonprofit)	3	3	---	---	---	---	6
Commercial bank loan	2	3	---	---	---	4	9
Loan from family and/or friends	1	1	2	---	---	---	4
Loan packages							
Program loan fund and other loan fund	---	---	---	4	---	---	4
Commercial bank loan and loan from family and/or friends	---	1	---	---	---	---	1
Program loan fund, other loan fund, and commercial bank loan	---	---	---	3	---	---	3
Program loan fund, other loan fund, and loan from family and/or friends	---	---	---	1	---	---	1
Operating business without financing	3	1	8	---	---	1	13
Total	9	9	18	9	---	5	50

SOURCES: Calculations from MDRC tracking forms and information from SEID program operators.

NOTES: Data include clients who began operating a business by September 30, 1989, with the exception of data from WEDCO, which include businesses started through November 1989.

Detroit is not included because the original contractor did not establish access to loans for SEID clients. In addition, client tracking data were not reported by the original contractor after the first six months of program operation. However, according to a survey conducted by the Michigan Department of Social Services, by May 1990, 30 clients reported themselves to be in business and 22 of these clients reported cash flow.

[a]Two of the eight clients each received two program loans.

the business training for SEID clients) receives two years of technical assistance from one of the instructors. Instructors visit all business operators twice a month, review their books, and provide accounting assistance. In addition, Mid-Minnesota SEID staff provide individualized technical assistance on an as-needed basis, and business operators can participate in biweekly business seminar/support group meetings, which sometimes include guest speakers on business-related topics. In WEDCO, clients originally used a computerized system to complete their financial records, but staff decided that clients learned more when they manually computed the financial reports (other sites continue to prefer automated record-keeping). The finance instructor helps clients complete the reports the first time. Clients financed through the loan fund are required to return each month to work on the books with SEID staff; this service is also available to other clients. WEDCO also sponsors monthly support groups. In Iowa, SEID staff provide all technical assistance to business operators. They visit business operators weekly until the clients demonstrate that they are successfully adhering to their business plans. In Canton, members of the loan committee (a banker, lawyer, accountant, and two entrepreneurs), marketing and financial consultants, and SEID staff are available to provide technical assistance throughout the term of the loan. However, staff expect that after six months clients will need little help. Staff plan to conduct monthly on-site visits for the first six months.[9]

IV. Administration of the Waivers

A. Receipt of Waivers

The design of the SEID demonstration assumed that clients would need a waiver to avoid jeopardizing their AFDC grant. Table 8.1 shows that almost all businesses did have a waiver: 84 percent of the business operators had a waiver at some point. However, in WEDCO one-third of the businesses were operating without a waiver.

There are two possible explanations as to why SEID clients may operate businesses without waivers. First, although all SEID enrollees receive AFDC when they enroll in the program, they may go off AFDC during SEID if they get married or their youngest child turns 19, which makes them ineligible for AFDC benefits. These clients continue to receive SEID services and their

[9]Because the Canton business operators very recently received their loans as of the last MDRC site visit, only proposed technical assistance activities are described.

businesses are included in the total, but they do not need waivers. The second explanation, discussed in more detail in the next section, is that program staff sometimes delay starting the waiver once a business has opened because the client's income is so low that the client would not immediately benefit from the waiver.

B. Starting the Waivers

States and program operators pursued different policies with regard to starting the waivers. Iowa state officials, for example, wanted the waivers to start as soon as the business opened in order to avoid prolonged welfare dependence. The program operator viewed the time limitations on the waiver as a means of encouraging clients to make progress quickly. In general, ISED found that a 12-month waiver allowed sufficient time for business development. In Minnesota, on the other hand, state officials felt that starting the waiver as late as possible benefits clients by increasing the time they have to start and stabilize a business while also receiving the support of their welfare benefits. WEDCO staff have negotiated with the AFDC caseworkers to begin the waiver only when the business produces "considerable" income. Although there is no cut-off amount, presumably when the client's income increases to the level at which her AFDC grant would be reduced, the waiver begins. This practice is especially important for seasonal businesses that may, after the business is opened, have a few months with little or no income until their season begins again. Alternatively, Mid-Minnesota staff, operating under the same waiver regulations, adhered to the letter of the law, invoking the waiver when the client received the first income from the business. The Office of Family Assistance of the U.S. Department of Health and Human Services issued a policy clarification in 1990 approving the practice of delaying the waiver.

In states such as Mississippi, however, welfare grants are much lower, and there is stricter enforcement of standard AFDC regulations pertaining to self-employment income. Without a waiver, almost any business income or loan receipt eliminates clients' eligibility to receive AFDC benefits. Consequently, programs in such states do not have the flexibility to begin the waiver at a later point. In Canton, they start the waiver when the loan is deposited; in Meridian, the program planned to start waivers when the business had its first sale.

C. Working with AFDC Caseworkers

In order to put the waivers into effect, AFDC caseworkers need training on the SEID program and waiver provisions. In Minnesota, the state's Department of Human Services staff and

local program operators trained AFDC caseworkers to calculate recipients' income from balance sheets, income statements, and cash flow statements. SEID has provided refresher training to Minnesota caseworkers over the course of the program. In Iowa, there has been less training of AFDC caseworkers (one day at program start-up) because SEID staff calculate clients' income; caseworkers, who calculate the AFDC grant based on that income calculation, do receive a manual that explains the waiver rules.

Clients, with help from SEID staff, are responsible for calculating business income/cash flow reports. Staff provide technical assistance to clients, teaching them how to keep and complete the necessary financial records that are part of regular business bookkeeping. In most cases, staff work jointly with the clients to calculate the clients' income for the first few months. Thereafter, staff expect the clients to complete them on their own. The completed financial reports are then given to the welfare office, and the caseworkers calculate the AFDC benefits.

As part of technical assistance, staff also serve as advocates for clients; they try to keep clients' AFDC grants at the maximum allowable level while also permitting the business to grow. This balance requires careful management of loans and expenses. For example, one SEID staff member mentioned that if a client's income is high enough to cause a deduction in her AFDC benefits, they might advise her to make her next rent payment early; this would raise her monthly business expenses, and when these expenses are deducted from revenues, the client's income would be lower than it would have been without the rent payment. As long as a client's income remains within a given level, her AFDC grant is unaffected.

D. Problems Presented by the Waivers and an Assessment of Their Usefulness

Although SEID staff generally report that caseworkers are cooperative, providers have expressed some concerns about the waivers. It should be noted that these problems are not consistently noted across all states, and even within a state, the level of cooperation can vary from one county to the next. For instance, SEID staff in Iowa report that the waiver provisions and calculation of income are confusing to the caseworkers, who have to learn the new rules but have relatively few SEID clients on their caseload. The paperwork involved in running a business under a waiver is cumbersome and confusing for some SEID staff and clients. Canton and Meridian SEID staff report that they would like additional training for themselves, clients, and the welfare workers on the waiver rules and responsibilities.

Program operators reported different opinions on the usefulness of the waiver. Staff in Iowa and WEDCO, sites that start the waivers later than elsewhere, find the waivers useful to clients. In contrast, Mid-Minnesota operators, who start the waivers earlier, feel that the clients' first 12 months of income would not affect their AFDC grant amount under the regular AFDC rules; thus, the waiver is not very useful. They would like to be able to use it over a longer period of time as business income increases. Program operators' views on the waivers are also affected by the average welfare grant levels in the state. Waivers are needed more in states with low AFDC grants, such as Mississippi, because without the waiver, clients would lose their welfare benefits as soon as they made any significant amount of money.

A related problem is the loss of Section 8[10] housing subsidies and Food Stamp eligibility once business operators start earning income. This problem is not addressed by the SEID waivers, which protect only AFDC benefits.

V. SEID Businesses as a Source of Employment for Others

Of the 50 clients operating a business under a waiver through September 1989, only 13 ever had any employees. Although it is early in the life of these businesses, thus far only one business has employed a significant number of people. To illustrate, the list below shows the largest number of employees that each of these 13 businesses employed during any single quarter:

- **Waterloo:** Two businesses each employed 1 full-time employee; one business employed 1 part-time employee.
- **Cedar Rapids:** One business employed 3 part-time and 1 full-time employee; one business employed 1 part-time and 1 full-time employee.
- **WEDCO:** Three businesses employed 1 part-time employee; one business employed 1 full-time employee.
- **Mid-Minnesota:** Three businesses employed 1 part-time employee; one business employed 24 part-time and 3 full-time employees.

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[10]Under the Section 8 Existing Housing regulations administered by the U.S. Department of Housing and Urban Development, a limited number of low-income individuals meeting certain eligibility criteria can receive federal rent subsidies for use in the private housing market.

The sample of business operators with employees is too small and the follow-up period is too short to determine whether businesses tend to hire more employees over time. However, the number of employees did fluctuate from one quarter to the next. For example, the business in Mid-Minnesota that had 24 part-time and 3 full-time employees in its first quarter under the waiver only employed 8 part-time and 4 full-time employees in the fourth quarter of the waiver.

The number of employees may not provide a good indication of the "health" of the business. Program operators discourage business operators from rushing to hire employees in the early months of operation, before it makes sense financially. It is too early in the life of these businesses to determine the contribution of SEID to local employment opportunities.

APPENDICES

APPENDIX A

DEVELOPMENT AND DESIGN OF MARYLAND'S SEID PROGRAM

In 1987, Maryland's welfare agency, the Department of Human Resources, began to explore with CFED the possibility of including SEID as an option under its larger welfare-to-work program. In 1988, Congress passed the Family Support Act, mandating states to implement the JOBS program for AFDC recipients. The Maryland Department of Human Resources identified the Department of Economic and Employment Development (DEED) as the lead state agency to oversee the employment training component of the state's JOBS program (Project Independence). Because SEID was seen to be consistent with DEED's economic development mission, DEED decided to sponsor SEID, and Maryland became the fifth state to enter the demonstration, with program services beginning in October 1990.

Other programs that could provide funds and services for SEID were already in place within the department. In addition to administering employment training funds for AFDC recipients, DEED was a partner, along with the SBA, in funding the state's Small Business Development Centers (SBDCs), public agencies that provide business information and technical assistance to new and small-scale entrepreneurs. Also, DEED administers Maryland's JTPA-funded dislocated workers program. All of these programs contribute to Maryland's SEID project.

Maryland's SEID program is unique in that a branch of state government, DEED, is directly involved in service delivery. Initially, the SBDC of Central Maryland was slated to be the SEID service provider, but it was determined that it would be better for the SBDC to undertake a specialized project of this kind in partnership with DEED rather than as sole program operator, so that the SBDC could continue to focus primarily on its mainstream responsibilities. It was decided that outstationed DEED staff would provide recruitment, screening, business training, and individualized technical assistance at the SBDC of Central Maryland. After the completion of business training, the participant also receives technical assistance from SBDC staff. The SBDC of Central Maryland provides the SEID participant with the kind of individualized technical assistance that is part of its mainstream mission.

The population eligible for SEID in Maryland also differs from that in other demonstration states, partly because of a complex funding mechanism that has shaped program goals and eligibility criteria in important ways. Initially, SEID was planned in Maryland as a program for AFDC recipients. DEED agreed to broaden the eligibility criteria to include low-income individuals who had lost their jobs (JTPA-eligible dislocated workers). This was viewed as a way to open the program up to DEED's larger target population, access more resources, enhance SEID's potential as an economic development program, and include a less disadvantaged population that is more likely to meet JTPA performance standards – all the while maintaining the commitment to create new avenues to economic self-sufficiency for low-income people.

Maryland's waiver package is similar to Minnesota's (see Chapter 2), except that Maryland requests discretionary power to extend the special exemptions available to SEID participants for up to three years. The waiver application is to be submitted to the federal Office of Family Assistance of the Family Service Administration in early 1991.

APPENDIX B

TECHNICAL APPENDIX

I. Data Sources for the Evaluation

The three data sources used in this report are the SEID background form, SEID enrollment form, and SEID quarterly tracking form. This section briefly describes each source.

A. SEID Background Form

The SEID background form was completed by all potential enrollees, either at an orientation session or during an initial inquiry about the program. The background form provides data on age, sex, marital status, ethnicity, educational attainment, employment and welfare histories, and interest in self-employment. Across all seven sites through April 30, 1990, the total background sample includes 1,082 cases.

B. SEID Enrollment Form

All potential enrollees who were accepted into and enrolled in the SEID program completed an enrollment form. Although this form was supposed to be completed by program staff, some clients filled it out with staff assistance. This form provides more detailed data on the demographic, educational, employment, and welfare background of the client, as well as information about family composition, child care needs, interest in self-employment, and skills for self-employment. Across all sites through April 30, 1990, the total enrollment sample includes 490 cases.

C. SEID Quarterly Tracking Form

Sites reported clients' progress in the program on a quarterly tracking form, noting the dates each client began and ended the program phases and, if applicable, the client's reason for leaving the program. Program operators also recorded information on clients' support service needs and services received. Data on clients' business plans, loan receipt (sources and amounts), and waiver information (number of employees and business revenue) were also reported on the tracking form. Tracking forms are completed quarterly for each client from enrollment until the end of the waiver or until the client leaves the program. Tracking data

are available through September 30, 1989 (except for Detroit, for which there are tracking data only through June 1989). The total tracking sample, excluding Detroit, is 314 cases.

II. Modifications to the Data

A. Detroit Tracking Data

Tracking data for Detroit are not included in the tables in Chapters 4, 7, and 8 because these data were not reported by the original contractor after the first six months of program operation. Background and enrollment data for Detroit are included in the tables in Chapters 5 and 6, which discuss potential enrollee and actual enrollee characteristics.

B. Duplicate Enrollment Forms

In a few cases, enrollment forms were received from both members of a married couple planning to jointly run a business; however, background, enrollment, and tracking data were used only for the individual listed as the head of the AFDC case.

C. Clients Not Receiving AFDC

Because SEID was designed for welfare recipients, SEID clients who were not receiving welfare at the time of enrollment form completion are excluded from the samples. If welfare information was incomplete or missing on the background or enrollment form, it was assumed the individual was receiving AFDC.

D. Missing Data Form

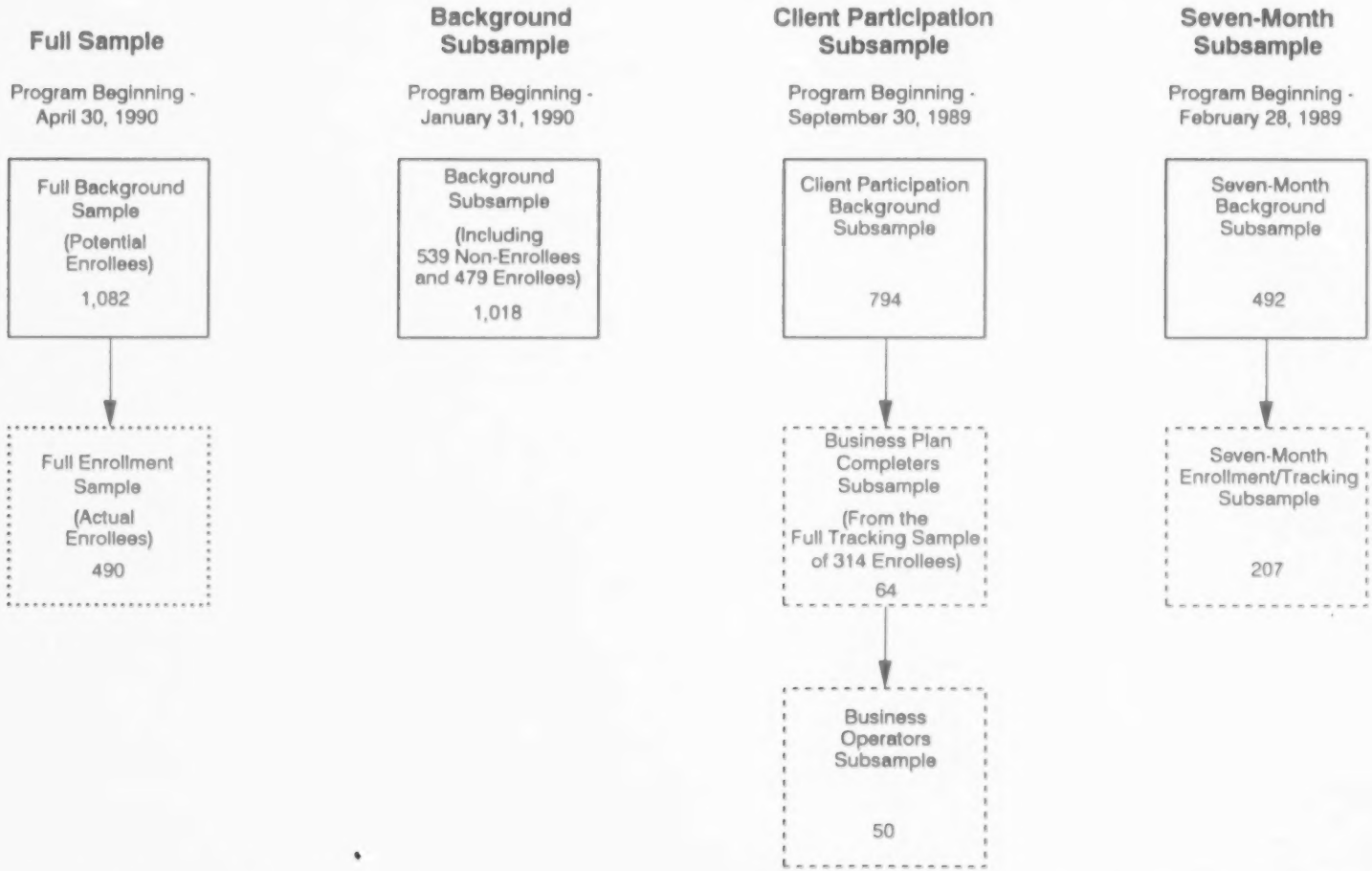
An entire tracking data form is missing for one enrollee at Meridian.

III. Samples Used in the Report

Four samples, covering four time periods, are used in the quantitative analysis in this report (see Figure B.1). All of the samples originate from the three data sources discussed above.

FIGURE B.1

SAMPLES USED IN THE SEID REPORT



NOTE: The solid boxes indicate samples drawn from the background form data file; the dotted box indicates the sample drawn from the enrollment form data file; and the dashed boxes indicate samples drawn from the tracking form data file.

A. Beginning of the Program Through April 30, 1990: The Full Sample

The full sample consists of 1,082 cases in the seven sites and includes all data received from the beginning of the program through April 30, 1990. Two subsamples from this time period are used in the report.

1. **Full background sample.** This sample originates from the background form data file and consists of all 1,082 cases in the full sample. It is the sample used to discuss potential enrollee characteristics and is the basis of Tables 5.1, 5.2, D.1, and D.2.

2. **Full enrollment sample.** This sample originates from the enrollment form data file and consists of 490 cases. It is the sample used to discuss actual enrollee characteristics and is the basis of Tables 6.3, 6.4, and 6.5.

B. Beginning of the Program Through January 31, 1990: The Background Subsample

The background subsample consists of 1,018 cases in the seven sites and includes all data received from the beginning of the program through January 31, 1990. When comparing enrollees and non-enrollees, individuals who completed a background form after January 31, 1990, were not included because they may not have had sufficient time to enroll by April 30, 1990. This subsample originates from the background form data file and consists of 539 potential enrollees who did not enroll in SEID and 479 SEID enrollees, a total of 1,018 cases. It is the subsample used in Tables 6.1 and 6.2.

There are inconsistencies in the data presented on enrollees in Tables 6.1 and 6.3 because the data for Table 6.1 were drawn from the background form data file, while the data for Table 6.3 were drawn from the enrollment form data file.

C. Beginning of the Program Through September 30, 1989: The Client Participation Subsample

The client participation subsample consists of 794 cases in all sites except Detroit and includes data received from the beginning of the program through September 30, 1989. Three subsamples from this time period are used in the report.

1. **Client participation background subsample.** This subsample originates from the background form data file and consists of all 794 cases in the client participation subsample.

It includes 314 cases from the tracking form data file, which is the full tracking sample, and is the subsample used to show client flow through program phases in Table C.1.

2. **Business plan completers subsample.** This subsample originates from the tracking form data file and consists of the 64 enrollees who completed a business plan by September 30, 1989. It is the subsample used in Tables 7.2 and 7.3 to show when business plan completers finished their plans and the types of businesses they proposed.

3. **Business operators subsample.** This subsample originates from the tracking form data file and consists of the 50 enrollees who began operating a business by September 30, 1989, with the exception of WEDCO, which includes businesses started through November 1989. It is the subsample used in Tables 8.1, 8.2, and 8.3 to describe the types of businesses and loan packages of SEID business operators.

D. Beginning of the Program Through February 28, 1989: The Seven-Month Subsample

The seven-month subsample consists of 492 cases in all sites except Detroit and includes data received from the beginning of the program through February 28, 1989. When analyzing client flow and business plan completion, individuals who enrolled after February 28, 1989, were not included. This cut-off ensures that all clients had a reasonable chance to progress through the business plan phase of SEID by September 30, 1989, the cut-off of the tracking data. Clients who enrolled immediately before September 30, 1989, would not have had sufficient time to progress to the business plan phase of the program. Consequently, if the percentage of business plan completers was taken from the total tracking sample, the result would underestimate the percentage of completers. After analyzing the data on business plan completion, it was decided that seven months is a reasonable length of time for clients to complete the business plan phase. (Ninety-one percent of all business plan completers did finish by seven months.) Two subsamples from this time period are used in the report.

1. **Seven-month background subsample.** This subsample originates from the background form data file and consists of all 492 cases in the seven-month subsample. It is the subsample used in Table 4.1 and Figure 4.2 to show client flow through program phases.

2. **Seven-month enrollment/tracking subsample.** This subsample originates from the tracking form data file and consists of 207 individuals who enrolled on or before February

28, 1989, and for whom there are at least seven months of tracking data. It is the subsample used to show the business plan completion rate and is the basis of Table 7.1.

IV. Regression Results

The following tables show the results from two regression analyses. Table B.1 presents regression results that measure the relationship between selected characteristics of potential enrollees (site, ethnicity, marital status, prior education, and welfare history) and enrolling in SEID. Table B.2 presents regression results that measure the relationship between characteristics of enrollees (site, ethnicity, marital status, number of children, prior education, welfare history, and self-employment experience) and completing a business plan within seven months.

TABLE B.1

ESTIMATED REGRESSION COEFFICIENTS FOR THE PROBABILITY OF ENROLLING IN SEID

Regressor or Statistic	Coefficient
Constant	0.304***
Site	
Waterloo	0.173***
Cedar Rapids	0.242***
WEDCO	---
Mid-Minnesota	0.296***
Meridian	-0.028
Canton	-0.113*
Detroit	0.280***
Non-white	0.045
Never married	-0.071**
High school diploma or GED	-0.012
Ever received vocational training	0.087***
Receiving AFDC for 2 or more years	-0.015
Number of observations	939
Number of non-enrollees	498
Number of enrollees	441
Degrees of freedom for error	927
Error mean square	0.228
R square	0.098
Mean of dependent variable	0.470
F statistic	9.142
P value of F statistic	0.000

SOURCE: Calculations from MDRC background forms for all potential SEID enrollees.

TABLE B.2

ESTIMATED REGRESSION COEFFICIENTS FOR THE PROBABILITY OF COMPLETING A BUSINESS PLAN WITHIN SEVEN MONTHS

Regressor or Statistic	Coefficient
Constant	0.138
Site[a]	
Waterloo	-0.018
Cedar Rapids	-0.009
WEDCO	---
Mid-Minnesota	-0.139
Canton	0.465***
Non-white	-0.126
Never married	0.006
Number of children	
1	---
2	0.064
3 or more	0.076
High school diploma or GED	0.006
Ever received vocational training	0.069
Receiving AFDC for more than 2 years	0.074
Ever self-employed	0.143*
Number of observations	195
Number of enrollees who completed a business plan within 7 months of enrollment	52
Number of enrollees who did not complete a business plan within 7 months of enrollment	143
Degrees of freedom for error	182
Error mean square	0.193
R square	0.080
Mean of dependent variable	0.267
F statistic	1.315
P value of F statistic	0.213

SOURCE: Calculations from MDRC enrollment and tracking forms for all enrollees with seven months of follow-up.

NOTE: [a]A dummy variable for Meridian was not included because of low sample size. Also, Detroit is not included because client tracking data were not reported by the original contractor after the first six months of program operation.

APPENDIX C

NUMBER OF PARTICIPANTS IN SEID PROGRAM PHASES

TABLE C.1

PARTICIPANTS IN SEID PROGRAM PHASES, BY SITE

Phase	Waterloo, IA[a]		Cedar Rapids, IA[b]		WEDCO, MN[c]		Mid-Minnesota, MN[c]		Meridian, MS[d]		Canton, MS[d]		Total	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent
Attended orientation	149		140		280		81		38		106		794	
Enrolled	66		70		95		53		7		23		314	
Started training	66	100.0	69	98.6	88	92.6	48	90.6	6	85.7	23	100.0	300	95.5
Completed training	52	78.8	36[e]	51.4	64[f]	67.4	40[f]	75.5	0	0.0	7[g]	30.4	199	63.4
Completed business plan	16	24.2	12	17.1	21	22.1	9	17.0	0	0.0	6	26.1	64	20.4
Obtained financing (or did not need it)	10	15.2	10	14.3	19	20.0	9	17.0	0	0.0	5	21.7	53	16.9
Started business	9	13.6	9	12.9	18[h]	18.9	9	17.0	0	0.0	5	21.7	50	15.9
Started waiver	9	13.6	8	11.4	12	12.6	9	17.0	0	0.0	4[i]	17.4	42	13.4

SOURCES: Calculations from MDRC background, enrollment, and tracking forms, and information from SEID program operators in Iowa, WEDCO, and Canton.

NOTES: Detroit is not included in these measures because of unavailable data.
"Number" and "percent" refer to number and percent of clients who enrolled through September 30, 1989.
[a]Recruitment began in March 1988.
[b]Recruitment began in July 1988.
[c]Recruitment began in February 1988.
[d]Recruitment began in September 1988.
[e]Twenty clients were in the middle of a training cycle as of September 30, 1989.
[f]Four clients were in the middle of a training cycle as of September 30, 1989.
[g]Nine clients were in the middle of a training cycle as of September 30, 1989.
[h]Includes businesses started through November 1989.
[i]Includes waivers received through October 1, 1989.

APPENDIX D

CHARACTERISTICS OF POTENTIAL SEID ENROLLEES

TABLE D.1

GENERAL CHARACTERISTICS OF POTENTIAL SEID ENROLLEES, BY SITE

Characteristic	Waterloo, IA	Cedar Rapids, IA	WEDCO, MN	Mid-Minnesota, MN	Meridian, MS	Canton, MS	Detroit, MI	Total
Gender								
Male	13.9%	19.4%	7.8%	27.3%	9.5%	2.0%	5.9%	11.5%***
Female	86.1	80.6	92.2	72.7	90.5	98.0	94.1	88.5
Age at last birthday[a]								
Under twenty	1.2	1.2	0.3	0.0	0.0	1.0	0.0	0.6[b]
Twenties	34.9	33.1	33.2	24.5	18.2	49.0	17.1	31.3
Thirties	43.0	44.0	52.3	48.0	50.0	40.0	58.8	49.0
Forties	20.3	19.9	11.8	24.5	22.7	9.0	20.0	16.9
Fifties	0.6	1.8	2.0	3.1	9.1	1.0	4.1	2.2
Sixties	0.0	0.0	0.3	0.0	0.0	0.0	0.0	0.1
Ethnicity[a]								
White	75.4	84.2	57.7	96.0	13.6	3.1	4.7	54.0[b]
African-American	22.8	10.9	31.9	0.0	86.4	96.9	88.8	40.2
Asian or Pacific Islander	0.6	1.8	2.3	1.0	0.0	0.0	1.2	1.4
Native American	0.6	0.6	3.2	2.0	0.0	0.0	0.6	1.5
Hispanic	0.6	1.2	3.8	1.0	0.0	0.0	0.0	1.6
Other	0.0	1.2	1.2	0.0	0.0	0.0	4.7	1.3
Marital status[a]								
Married, spouse present	16.4	12.3	11.7	24.2	9.5	5.3	12.6	13.2[b]
Married, spouse absent	18.7	16.6	16.1	10.1	4.8	29.5	20.4	17.7
Divorced	42.7	44.8	37.7	53.5	42.9	16.8	28.7	37.9
Widowed	0.0	0.6	1.2	0.0	4.8	0.0	1.2	0.8
Never married	22.2	25.8	33.3	12.1	38.1	48.4	37.1	30.4
High school diploma or GED	89.6	88.4	89.9	90.9	86.4	62.0	90.0	87.0***
Ever received vocational training	53.1	51.6	60.4	67.7	76.2	52.0	77.0	60.7***

(continued)

TABLE D.1 (continued)

Characteristic	Waterloo, IA	Cedar Rapids, IA	WEDCO, MN	Mid-Minnesota, MN	Meridian, MS	Canton, MS	Detroit, MI	Total
Ever employed for pay	91.1%	97.0%	93.6%	100.0%	100.0%	81.0%	95.9%	93.6%***
Longest job was full-time	66.7	83.2	71.1	87.0	90.5	64.3	75.9	74.4***
Receiving AFDC for 2 or more years	68.2	53.8	64.3	58.6	80.0	76.3	76.8	66.3***
Sample Size	175	166	350	99	22	100	170	1,082

SOURCE: Calculations from MDRC background forms.

NOTES: Data include information received through April 1990.

A chi-square test was used to determine whether differences among the distributions of characteristics between the sites were statistically significant. Statistical significance levels are indicated as: * = 10 percent; ** = 5 percent; *** = 1 percent.

[a]Distributions may not total 100.0 percent because of rounding.

[b]A chi-square test was inappropriate because of low expected cell frequencies.

TABLE D.2

BUSINESS IDEA-RELATED CHARACTERISTICS OF POTENTIAL SEID ENROLLEES, BY SITE

Characteristic	Waterloo, IA	Cedar Rapids, IA	WEDCO, MN	Mid-Minnesota, MN	Meridian, MS	Canton, MS	Detroit, MI	Total
Specific business idea at orientation	83.9%	81.4%	97.3%	94.9%	95.5%	89.9%	98.8%	92.0%***
Previous experience in area of business idea	73.2	82.0	73.8	83.7	85.7	77.6	85.5	78.5**
Vocational training in area of business idea	38.2	33.1	40.3	50.0	52.4	42.0	56.0	43.2***
Sample Size	175	166	350	99	22	100	176	1,082

SOURCE: Calculations from MDRC background forms.

NOTES: Data include information received through April 1990.
A chi-square test was applied to differences among sites. Statistical significance levels are indicated as: * = 10 percent; ** = 5 percent; *** = 1 percent.

APPENDIX E

A COMPARISON OF SEID ENROLLEES WITH AFDC RECIPIENTS IN TWO OTHER PROGRAMS

For comparative purposes, this discussion compares SEID enrollees to clients in voluntary programs in Maine and New Jersey that placed AFDC recipients in private sector jobs and used AFDC funds to subsidize their salaries. Program staff in Maine and New Jersey screened clients in order to place qualified and promising candidates in these positions.

- A large proportion of volunteers in all three programs had an unusually high level of education. SEID attracted more clients with a high school diploma or GED (89 percent) than did Maine (75 percent) or New Jersey (60 percent).

- SEID, Maine, and New Jersey volunteers had all averaged an unusually long time on welfare. Nationally, about 51 percent of AFDC recipients have been on welfare for more than two years.[1] The proportion of volunteers with more than two years on welfare was 61 percent for SEID, 63 percent for Maine, and 74 percent for New Jersey.

- The average age for SEID, Maine, and New Jersey volunteers was over 30, with SEID enrollees being the oldest. Nationally, only 45 percent of AFDC recipients are over age 30.[2]

- In marital status, SEID clients closely resemble the Maine volunteers – in both cases, about one-fourth had never been married. Marriage was less common in the New Jersey program: More than half the volunteers had never married. This is more typical of AFDC recipients, among whom 56 percent have never married.[3]

- SEID enrollees resemble Maine volunteers in the age distribution of their children – and therefore in the number of years of potential AFDC eligibility left to them. Approximately half the SEID and Maine volunteers had a child under age 6. Again, New Jersey presents a different picture: Only about one-quarter of the volunteers had children under age 6. Nationally, 59 percent of AFDC families have children under age 6.[4]

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[1]U.S. Department of Health and Human Services (1988).
[2]U.S. Department of Health and Human Services (1988).
[3]U.S. Department of Health and Human Services (1988).
[4]U.S. Department of Health and Human Services (1988).

This comparison demonstrates that, while SEID enrollees are quite dissimilar to the general AFDC population, they do resemble in some respects enrollees in other voluntary welfare employment programs that rely on screening to find qualified candidates. Selective-voluntary welfare employment programs – including SEID – seem to serve approximately the same kinds of clients.

APPENDIX F

A SAMPLE BUSINESS PLAN

"Alice's Sweets Stand Sample Business Plan" by the Women's Economic Development Corporation (WEDCO) is reprinted from the book *Self-Employment Training Opportunities.* Copyright © 1987 by WEDCO and used with its permission.

(On Letterhead)

Alice's Sweets Stand

Sample Business Plan

June, 1987

Alice Long
103 First Street
Hollowtown, NI 54154
(666) 555-4444

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I. Business Description

Business Description

Alice's Sweets Stand is in the business of selling cookies direct to consumers from stands located at county fairs and in shopping malls in Hollowtown, U.S.A. It is a retail business specializing in three cookies: chocolate chip, pumpkin swirls, and raisin granola. A decorative booth is set up at various county fairs; while the mall location is not yet active, the plan is to open a stand in McGregor's Mall in November. The long range goal is to either franchise the booths or create customer demand for wholesaling the product.

Organization and Personnel

The business is a sole proprietorship owned and operated by Alice Long. Alice is uniquely qualified to operate this business due to three year's experience as a cook and baker at various bakeries. She also has taken business courses at Westside Community College in areas including: bookkeeping, inventory control and small business management (see attached resume).

The business currently has no employees, but plans to hire an individual to operate a booth in a shopping mall during the winter months. The position will be responsible for sales, bookkeeping, and maintenance of the booth.

Business Advisors

Business advisors to Alice's Sweets Stand include:

- Dorothy Jones, attorney at law
- Jim Sands, accountant
- Sally Smith, business consultant at (Organization name)

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II. Marketing Plan

Products

Alice's Sweets Stand specializes in selling fresh, wholesome cookies to attendees of county fairs, craft markets and in shopping malls. During the year the stand offers three primary cookie varieties:

- Chocolate Chip — Fresh large chunks of chocolate. Perfect for an afternoon snack.
- Pumpkin Swirls — Sweet and moist. Suitable for the sweetest tooth.
- Raisin Granola — Fresh, natural ingredients. Perfect for the health conscious.

Other products that will be added will include:

- Pistachio Nut Cookie.
- Chocolate, chocolate chunk.

The benefits of our products speak for themselves: cookies are a delicious snack or dessert. They are easy to eat and a quick treat at the fair. The benefits of buying from Alice's Sweets Stand are their convenient locations and the fresh, high quality taste. They appeal to everyone from a child to a senior citizen.

Markets

There are two primary markets for Alice's Sweets Stand. The main and strongest market is women and men attending the fair or event or shopping in McGregor's Mall. Typical cookie buyers at the fair or in the Mall are between 20 and 55 years old, are out to enjoy themselves, and have family incomes in excess of $15,000 per year. They are taste conscious and want a light sweet snack to munch on while walking around the fair.

According to the Chamber of Commerce, an average of 5,000 people attend the county fair. Approximately 1,000 people shop at the mall on an average day.

Another market for Alice's cookies is the commercial market including businesses, retail establishments, restaurants, and the local hospital.

The trend affecting both markets is the emphasis on purchasing cookies rather than mom's homecooking. This can only help our business.

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Competition

Direct competition for Alice's Sweets Stand are the booth's selling mini donuts, ice cream bars and cones, cotton candy, carmeled apples and carmel corn. They sell for $1.00 to $2.00 depending on the item. The mini donuts are the closet competitor and are greasy, messy and lacking in flavor.

Indirect competition for Alice's Sweets comes from other food booths selling complete meals with desserts and people who bring their pinic food. There is considerable indirect competition at the fairs and mall locations. Often these are run for charitable causes.

For those interested in a good tasting snack or dessert that is homemade, the alternatives are few. Alice's Sweets Stand offers convenient locations and the highest quality cookies at affordable prices ($.75 each). These are the features most important to the customer.

Position

Alice's Sweets Stand is unique in providing fresh, high quality, cookies to the food loving market. She is conveniently positioned between the coffee and the milk stands.

Goals

Alice's goal is to sell at least 37,500 cookies the first year for gross sales of $28,125.

Strategies

Packaging.

The packaging that is most important in the dessert stand business is the physical appearance of the stand. They must look clean, inviting, and a bit on the showy side to attract attention. Alice's Sweets Stand plans to have large signs with the name of the stand and an irresistible picture of a cookie over each stand. The business intends to use bright colors — preferably green, white and red and use the aroma of the cookies to attract attention.

Physical Distribution and Location.

The business has chosen to distribute its product direct to the consumer through retail outlets in the form of dessert stands. The first stand opened in May at the Anywhere County Fair. It opened a second stand at the St. Croix Craft Fair during the summer months (July and August). These fairs are an excellent location because of the large volume of traffic passing by each day (approximately 5,000 people).

The business plans to open another location in McGregor's Mall to capture the holiday traffic during November and December. Nearly everyone shops at McGregor's at least once a week.

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Pricing.
The business has chosen to price cookies at $.75 each. Jumbo's Supermarket, a direct competitor, charges $.75 per cookie and Clara's Health Food Store, another direct competitor, charges $1.00. While Alice's Sweets Stand offers more variety than Jumbo's, the market is somewhat price sensitive and the business prefers to a sell a higher volume at a slightly lower price than might be indicated. Also, $.75 is competitive relative to other direct competition from ice cream, popcorn, candy bars, and so forth.

Advertising and Promotion.
Because there is not a lot of capital to invest in the business and because the business is highly visible in each stand location, the advertising budget is limited to $200; $100 for advertising signs in each of the two locations. The signs will be designed to stimulate an individual's appetite. If this strategy does not bring the results expected, flyers will be produced to distribute at the fairs.

Selling.
The business intends to reach the commercial market using face-to-face selling. Twenty-five businesses have been identified for personal sales calls to stimulate cookie sales.

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III. FINANCIAL PLAN

Investment required or Loan requested

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Alice's Sweets Stand — Cash Flow Projections - 1st Year

Months:	Start	April	May	June	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Total
Sales:														
# Sold	0	2000	2500	3000	5000	6000	3000	2000	4000	5000	1000	1000	3000	37500
Cookie Sales ($.75 ea)	0	1500	1875	2250	3750	4500	2250	1500	3000	3750	750	750	2250	28125
Cost of Goods (Variable):														
Cookies ($.30 ea)	0	600	750	900	1500	1800	900	600	1200	1500	300	300	900	11250
Margin:	0	900	1125	1350	2250	2700	1350	900	1800	2250	450	450	1350	16875
Operating Expenses:														
Wages/Payroll Taxes					588	588	588	588	588	588	0	0	588	4116
Cookie Stand Lease	25	25	25	25	50	50	50	50	50	50	25	25	50	500
Location Signs	50			50										100
Advertising Signs	100			100										200
Office Supplies	135				35				35				35	240
Insurance	150													150
Miscellaneous		25	25	25	25	25	25	25	25	25	25	25	25	300
Total Operating Expense	460	50	50	200	698	663	663	663	698	663	50	50	698	5606
Operating Cash	-460	850	1075	1150	1552	2037	687	237	1102	1587	400	400	652	11269
Other:														
Equipment	300	50	50	50	50	50	50	50	50	50	50	50	50	900
Loan Payment			100	100	100	100	100	100	100	100	100	100	100	1100
Owner's Withdrawal	1000	1000	1000	1000	1000	1000	1000	1000	1000	1000	1000	1000	1000	13000
Total Other	1300	1050	1150	1150	1150	1150	1150	1150	1150	1150	1150	1150	1150	15000
Net Cash	-1760	-200	-75	0	402	887	-463	-913	-48	437	-750	-750	-498	-3731
Cume Cash	-1760	-1960	-2035	-2035	-1633	-746	-1209	-2122	-2170	-1733	-2483	-3233	-3731	
Cash Summary:														
Beginning Cash	0	740	540	465	465	867	1754	1291	378	330	767	17	767	0
Net Cash	-1760	-200	-75	0	402	887	-463	-913	-48	437	-750	-750	-498	-3731
Loans	2500											1500		4000
Ending Cash	740	540	465	465	867	1754	1291	378	330	767	17	767	269	269

Alice's Sweets Stand

Cash Flow Projections - 2nd Year

Months:	April	May	June	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Total
Sales:	4000	5000	6000	7500	8000	4500	4000	5000	6500	1000	1000	3500	56000
# Sold													
Cookie Sales ($.75 ea)	3000	3750	4500	5625	6000	3375	3000	3750	4875	750	750	2625	42000
Cost of Goods (Variable):													
Cookies ($.30 ea)	1200	1500	1800	2250	2400	1350	1200	1500	1950	300	300	1050	16800
Margin:	1800	2250	2700	3375	3600	2025	1800	2250	2925	450	450	1575	25200
Operating Expenses:													
Wages/Payroll Taxes	588	588	588	588	588	588	588	588	588	0	0	588	5880
Cookie Stand Lease	35	35	35	70	70	70	70	70	70	35	35	70	665
Location Signs													0
Advertising Signs													0
Office Supplies	35			35				35				35	140
Insurance	150												150
Miscellaneous	25	25	25	25	25	25	25	25	25	25	25	25	300
Total Operating Expense	833	648	648	718	683	683	683	718	683	60	60	718	7135
Operating Cash	967	1602	2052	2657	2917	1342	1117	1532	2242	390	390	857	18065
Other:													
Equipment	50	50											100
Loan Payment	100	100	100	100	100	100	100	100	100	100	100	100	1200
Owner's Withdrawal	1500	1500	1500	1500	1500	1500	1500	1500	1500	1500	1500	1500	18000
Total Other	1650	1650	1600	1600	1600	1600	1600	1600	1600	1600	1600	1600	19300
Net Cash	-683	-48	452	1057	1317	-258	-483	-68	642	-1210	-1210	-743	-1235
Cume Cash	-683	-731	-279	778	2095	1837	1354	1286	1928	718	-492	-1235	
Cash Summary:													
Beginning Cash	269	86	38	490	1547	2864	2606	2123	2055	2697	1487	277	269
Net Cash	-683	-48	452	1057	1317	-258	-483	-68	642	-1210	-1210	-743	-1235
Loans	500											500	1000
Ending Cash	86	38	490	1547	2864	2606	2123	2055	2697	1487	277	34	34

Cash Flow Assumptions

First Year	Second Year
SALES:	
Cookies sell for $.75 each	Cookies sell for $.75 each
Sales are strong through summer months and through holiday season	Sales are strong through summer months and through holiday season
Second location opens in July	
Second location closes in January and reopens in March	Second location closes in January and reopens in March
COST OF GOODS:	
Cookies cost $.30 each.	Cookies cost $.30 each.
WAGES:	
Employee is hired in July to run 2nd location	
Employee is laid off January and February	Employee is laid off January and February
Wage is $3.50 per hour	Wage is $3.50 per hour
STAND LEASE:	
Monthly lease per stand is $25	Monthly lease per stand is $35
LOCATION SIGNS:	
Signs at each stand	
Each sign costs $50	
ADVERTISING SIGNS:	
4 advertising signs at each site;	
Each sign costs $25	
OFFICE SUPPLIES:	
Initial supplies cost $135	
INSURANCE:	
Liability and casualty insurance	Liability and casualty insurance
EQUIPMENT:	
2 used cash registers for a total cost of $1,000	
LOAN PAYMENT:	
Payment against line of credit	Payment against line of credit
OWNER'S WITHDRAWAL:	
Alice plans to withdraw $1,000 per month	Alice plans to withdraw $1,500 per month

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IV. ATTACHMENTS

Resume

Reference Letters

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